Introduction

A. Pleasure to be back again.

B. Prayer of negro preacher:

"I pray you, Oh! Lord! to use me. Use me in Thy way, Oh! Lord! — preferably in an advisory capacity."

C. Purpose of discussion is only incidentally to give information; primarily to help you train yourselves to analyze developments.

D. Prejudiced — though not always defend.

No mental gyroscope
No communion with burning bush

I. Investment Management

A. Objectives

1. Safety
2. Income
3. Increase in capital value

B. Full investment

1. Minimum of cash — exceptions 1932-1933 and some smaller banks
2. Equities
3. Debts
   a. Mortgages
   b. Long-term bonds
   c. Short-term

C. You appropriately follow what other investment managers are doing
II. Why investment managers should understand the F.R.S.

A. Its power

Gold Certificates = $21 billion
At 25%, it can hold = 63 billion E.A.
Now holds 25 billion
Unused power = 38 billion

B. It does not follow a full investment policy

C. Whether you agree with what it does or not, you cannot afford not to follow and understand.

D. Information made available promptly and in detail.

III. How to interpret what the System is doing

A. It uses its power to influence the

1. Supply
2. Availability, and
3. Cost of money and credit

B. Therefore, the important items to follow

1. The volume of reserves
2. The source of reserves: Discounts / Excess Governments / Reserves
3. The cost of reserves: Interest rates

Balance Sheet - F. R. Banks, March 25, 1953
(billions)

<table>
<thead>
<tr>
<th>Gold Certificates</th>
<th>22</th>
<th>Notes</th>
<th>25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounts and Advances</td>
<td>1</td>
<td>Reserve Deposits</td>
<td>20</td>
</tr>
<tr>
<td>Governments</td>
<td>24</td>
<td>Treas.</td>
<td>.007</td>
</tr>
<tr>
<td>Other assets*</td>
<td>4</td>
<td>Other Cr. &amp; Cap.**</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>51</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Mostly uncollected items
** Deferred availability, other deposits and capital accounts
III. C. The necessities of Federal Reserve Bank accounting

1. The accounts must balance
2. Member bank reserves are a liability
3. Therefore every change in reserves must be accompanied by changes in other accounts

(Apologize for those who know, but many forget)

D. Major accounts affecting reserves

1. Assets:
   a. Gold certificates
   b. Loans, discounts, and advances
   c. U. S. Government securities
   d. Other assets
2. Liabilities and capital accounts
   a. Federal Reserve notes
   b. Government deposits
   c. Other liability and capital accounts
3. Exercises and how to use

IV. Interpreting System operations

Can control supply or cost but not both

A. In the days of pegging
   - implications of pegging
   - chain reaction

B. During the conflict (Read F.O.M.C. release)

The refunding of August 1950

At meetings of the Board of Governors and the Federal Open Market Committee on August 18, 1950, the following statement was approved:

"The Board of Governors of the Federal Reserve System today approved an increase in the discount rate of the Federal Reserve Bank of New York from 1-1/2 per cent to 1-3/4 per cent effective at the opening of business Monday, August 21.

"Within the past six weeks loans and holdings of corporate and municipal securities have expanded by 1.5 billion dollars at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market."
"The Board is also prepared to request the Congress for additional authority should that prove necessary.

"Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the Government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential." (Federal Reserve Bulletin - Sept. 1950, p. 1110)

C. Since the accord of March 1951

1. The Accord

   Joint announcement of full accord - 3/3/51
   "The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize the monetization of the public debt." (New York Times, 3/4/51)

   a. Exchange offer 2-3/4 - 29 yr. convertible into 5 year 1-1/2 per cent note
   b. Purchases on scale-down of market offerings of 2-1/2's review daily
   c. Federal reduce or stop purchases of shorts get banks to rely on discounting for funds.
      Unless unforeseen compelling circumstances arise, discount rate would be kept at 1-3/4 for remainder of year
   d. Federal and Treasury at staff and official levels would confer frequently.

   Treasury's announcement of new issue - 3/3/51

   "The Secretary of the Treasury announced today that there will be offered for a limited period a new investment series of long-term nonmarketable Treasury bonds in exchange for outstanding 2-1/2 per cent Treasury bonds of June 15 and December 15, 1967-72, the details of which will be announced on March 19.

   "The new bonds will be issued in registered form only, with appropriate maturity, and will bear interest at the rate of 2-3/4 per cent per annum payable semi-annually. They will not be transferrable or redeemable prior to maturity; however, owners of such nonmarketable bonds will be given an option of exchanging them prior to maturity for marketable Treasury notes bearing terms to be announced in the official offering." (New York Times, 3/3/51)
IV. C. 2. Orderly markets and supporting refunding operations to reduce attrition

a. The 2-3/8's of June 1952

Policy under the accord

"In periods of Treasury refinancing, the Federal Reserve acted to steady the market for short-term Government securities. During such a refunding period a substantial volume of securities is shifted in the market. Some holders want to redeem the maturing securities for cash, while some nonholders want to buy maturing issues at current prices in order to obtain the new issue on exchange. In several of the refunding operations in 1951, demand for the maturing securities for exchange purposes was not equal to the volume of the maturing issue for which holders wanted cash. Under these circumstances, Federal Reserve open market operations, by absorbing securities temporarily in excess of current demand, helped to assure larger exchanges and smaller cash redemptions. More than a billion dollars of securities were purchased by the Federal Reserve in June in this type of operation, and more than half a billion in September and October combined. There was only slight support of refunding operations in December but the Federal Reserve made large purchases late in the month to meet seasonal needs in the money market. In all of these cases, the purchases were either concurrently or subsequently offset by sales of short-term securities from the open market account."

(Annual Report, Board of Governors F.R.S., 1951, pp.6-8)

3. Preventing disorderly markets
   Martin's address of Dec. 2, 1952 at Hollywood, Florida

4. Correcting disorderly markets
   Martin's Detroit and Boston speeches

D. Suggestions:

1. Follow speeches, especially of Martin and Sproul

2. Follow regular statistical releases

E. Return to Open Market operations and Discounting
   Repurchase agreement

   Keep inter-relation in mind - especially on reserves
   e.g., open market purchases to ease Xmas cash
V. The question of objectives
   A. Obligations of a professional man to his profession and to society
   B. Objectives and their implications

VI. Organization of the System

VII. Guides to policy
    What magnitudes to follow
    Prospects versus experience

VIII. Instruments
    General
    Selective

IX. A day with Reserve Officials

What I have tried to say is two-fold:

1) Part is technical - on which there is a matter of right or wrong
   Analytical
   e.g. No outstanding issue below par
        Each new issue with a higher coupon at par

2) Part is a matter of judgment - on which reasonable men reasonably may differ
   Special interests vs. general interest
I. The Unique Power of the Federal Reserve System

A. Nature of the power

B. Extent of the power

II. Interpreting How the System Is Using Its Power

A. Sources of information

1. Regular and prompt release of statistical information

2. Regular publication of charts

3. Occasional policy statements

B. How to interpret the information

1. Accounting necessities
   (a) Implications of double-entry bookkeeping
   (b) Using the booklet "Exercises in the Debits and Credits of Bank Reserves"

2. Some illustrations:
   (a) The refunding of August 1950
   (b) The accord of March 1951
   (c) The 2-3/8's of June 1952
   (d) Chairman Martin's address of December 2, 1952

3. Keeping currently informed

III. Why Have a Federal Reserve System?

A. The role of money and reserves

1. The demand for money
   (a) For use as a medium of exchange
   (b) For use as a store of value

2. The supply and availability of money
   (a) Without a Federal Reserve System
   (b) With a Federal Reserve System

3. The cost of money

B. Choosing objectives

C. How decisions are made

K.R. Bepp
3/6/53
The following joint announcement was issued for release on March 4, 1951:

"The Treasury and the Federal Reserve System have reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize the monetization of the public debt."

Write a concise memorandum of the economic developments at the time this accord was reached. You may use as your primary source the "Federal Reserve Charts on Bank Credit, Money Rates, and Business."
Assume that the president of your bank is a member of the Board of Directors of the district Federal Reserve Bank. On October 1, 1953 he asks you to prepare a memorandum to assist him in discussing what action the board should take with respect to the Federal Reserve discount rate during the next month.

Write a concise memorandum explaining what action you believe should be adopted, and the arguments for and against your decision. Include in your discussion such factors as an appraisal of the general credit situation, the trend and frequency of member bank borrowing, the Treasury financing problem, and the probable effects of a change or failure to change the rate.

(This problem should be answered in about six pages and must be submitted by October 15, 1953.)
For the 3-month period September 30, 1953 to December 30, 1953, and for each of the three months thereof (September 30 - October 28, October 28 - November 25, and November 25 - December 30), calculate the changes shown in the "Factors Statement" of the Federal Reserve Banks which were responsible for the change in the member bank reserve accounts and excess reserves. Reconcile the changes in all factors increasing and decreasing reserves with the net change in reserve accounts. (This part of the problem should be a statistical table.)

Relate these changes to domestic and international economic developments, including Federal Reserve credit policy and Treasury financing operations. (This part of the problem can be answered in three pages.)
This material used by K. R. Bopp at Graduate School of Banking, Rutgers University, on June 9 and 10, 1953. Also the following:


"Exercises in the Debits & Credits of Bank Reserves"

May 1953 Business Review article "Free Markets and the Federal Reserve System"
<table>
<thead>
<tr>
<th>Objective</th>
<th>Conditions calling for or permitting expansion</th>
<th>Conditions calling for or permitting contraction</th>
<th>Inherent Bias</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Convertibility</td>
<td>High and/or rising gold holdings</td>
<td>Low and/or declining gold holdings</td>
<td>Contractive</td>
</tr>
<tr>
<td>2. Productive credit</td>
<td>Increase in monetary volume of production</td>
<td>Decrease in monetary volume of production</td>
<td>Chain reaction</td>
</tr>
<tr>
<td>3. Stable prices</td>
<td>Declining prices</td>
<td>Rising prices</td>
<td>None</td>
</tr>
<tr>
<td>4. Full employment</td>
<td>Less than full employment</td>
<td>Jobs in excess of workers</td>
<td>Expansive</td>
</tr>
<tr>
<td>5. Maintaining a fixed rate of interest</td>
<td>When savings are inadequate</td>
<td>When savings are excessive</td>
<td>Self-inflamatory</td>
</tr>
</tbody>
</table>

KRB - Investments III
REDEMPTION EXPERIENCE IN REFUNDING, SELECTED DATES, 1950
(Amounts in millions of dollars)

<table>
<thead>
<tr>
<th>Issues being retired</th>
<th>Refunding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total outstanding</td>
<td>9,444</td>
</tr>
<tr>
<td>Federal Reserve holdings:</td>
<td></td>
</tr>
<tr>
<td>At time of announcement</td>
<td>1,040</td>
</tr>
<tr>
<td>Purchased after announcement</td>
<td>0</td>
</tr>
<tr>
<td>Exchanged:</td>
<td></td>
</tr>
<tr>
<td>By Federal Reserve</td>
<td>1,040</td>
</tr>
<tr>
<td>By others</td>
<td>7,954</td>
</tr>
<tr>
<td>Redeemed for cash</td>
<td>450</td>
</tr>
</tbody>
</table>

Percentage of total

| Exchanged by Federal Reserve-total       | 11.0      | 39.5             | 76.7             |
| Original holdings                        | 11.0      | 26.5             | 17.5             |
| Purchased                                | 0         | 13.0             | 59.2             |
| Exchanged by others                      | 84.2      | 56.2             | 5.8              |
| Redeemed for cash                        | 4.8       | 4.3              | 17.5             |

FEDERAL RESERVE BANK STATEMENTS - 1950

<table>
<thead>
<tr>
<th>Wednesdays</th>
<th>Aug. 16</th>
<th>Sept. 27</th>
<th>Oct. 4</th>
<th>Aug. 16 - Oct. 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold</td>
<td>22.7</td>
<td>22.2</td>
<td>22.3</td>
<td>-.4</td>
</tr>
<tr>
<td>U.S. Gov't Secur.</td>
<td>18.3</td>
<td>19.4</td>
<td>19.4</td>
<td>+1.1</td>
</tr>
<tr>
<td>Bills</td>
<td>4.3</td>
<td>1.4</td>
<td>1.4</td>
<td>-2.9</td>
</tr>
<tr>
<td>Certificates</td>
<td>3.0</td>
<td>5.0</td>
<td>1.1</td>
<td>-2.9</td>
</tr>
<tr>
<td>Notes</td>
<td>6.3</td>
<td>9.2</td>
<td>14.1</td>
<td>+7.8</td>
</tr>
<tr>
<td>Bonds</td>
<td>4.7</td>
<td>3.8</td>
<td>3.8</td>
<td>-.9</td>
</tr>
<tr>
<td>Other</td>
<td>4.2</td>
<td>3.9</td>
<td>3.6</td>
<td>-.6</td>
</tr>
<tr>
<td>Total</td>
<td>45.2</td>
<td>45.5</td>
<td>45.3</td>
<td>+.1</td>
</tr>
</tbody>
</table>

| Liabilities |         |          |        |                 |
| Fed. Res. Notes | 22.8 | 23.0     | 23.0   | +.2             |
| Reserve Balances | 16.3 | 16.7     | 16.6   | +.3             |
| Other Deposits | 2.1   | 2.3      | 2.2    | +.1             |
| Other Liabilities & Capital | 4.0  | 3.5      | 3.5    | -.5             |