

FEDERAL RESERVE POLICY

Outline of Lectures by

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Introduction

Our Common Objective: Stable Economic Growth

A. We have a money economy. Purchasing is like casting votes for what we want produced.

1. Want enough votes cast to utilize available resources

a. Role of Government

b. Role of Federal Reserve System

2. Freedom to cast votes as we wish

B. Flow of expenditures = $M \times V$

1. Method of regulating M

2. Fractional reserve system

Suggest they reread Appendix B of Study 1 - Our Financial System at Work (The Mechanics of Deposit creation)

Also Chapter II of Study 2.

I. Mechanics of Federal Reserve Operations

A. The balance sheet must always balance

B. Factors that determine the amount of reserves

1. Non-managed factors

Money in circulation

Foreign deposits

Monetary gold stock

Treasury deposits

Federal Reserve float

(deferred availability cash items

minus uncollected cash items)

Other deposits (non-member clearing)

Other Reserve Bank credit (13b)

Other Reserve Bank accounts (capital)

Treasury cash holdings (gold)

Treasury currency outstanding

- 2. Managed factors
 - Government securities
 - Discounts and advances
- 3. Major factors in last 25 years
 - II - 14
- C. The volume of Reserves
 - 1. Total reserves
 - 2. Required reserves
 - 3. Excess reserves
 - 4. Free reserves

(It isn't only present supply but ease -
or difficulty - in getting more and cost!)

II. Review of extension problem

- A. Purpose is to have you increase understanding by following through each of the factors to its effects on reserves
- B. Accuracy important!
Follow directions
 - 1. One-third for filling in tables
 - 2. Two-thirds for questionnaires

III. Objectives of policy and related programs

- A. Objectives (accommodating credit needs - expansionary) aggravate
(economic stability) contractionary)
- (Basic)
 - 1. Maximum employment
 - 2. Stable price level (short-run correct disorder)
 - 3. International stability
- B. Related programs and resolution of conflicts
- C. Guides to current operations
- D. Measures of immediate results

IV. Methods of influencing credit conditions

(Wish to influence flow of expenditures by influencing supply, availability & cost)

- A. Discount rate and discount administration
- B. Open-market operations
- C. Reserve requirements
- D. Selective credit controls

V. Federal Reserve Policy in Operation:

Open Market Committee directives to its Executive Committee:

"Transactions for the System open market account should be with a view

A. March 4-5, 1953

"to exercising restraint upon inflationary developments"

B. June 11

"to avoiding deflationary tendencies without encouraging a renewal of inflationary developments (which in the near future will require aggressive supplying of reserves to the market)."

C. September 24

"to avoiding deflationary tendencies."

D. December 15

"to promoting growth and stability in the economy by actively maintaining a condition of ease in the money market."

E. March 3, June 23, Sept. 22, 1954

Repeated

F. December 7, 1954

Deleted "actively".

VI. Comments on Extension Problem

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in course on "Economics of Banking and Business"
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I. Mechanics of Federal Reserve operations

- A. Bank credit and reserves
- B. Factors that determine the amount of reserves
 - 1. Non-managed factors
 - 2. Managed factors
- C. Reserves
 - 1. Total reserves
 - 2. Required reserves
 - 3. Excess reserves
 - 4. Free reserves

II. Review of Extension Problem on the Federal Reserve

III. Objectives of policy and related programs of action

- A. Specific objectives and their implications
- B. Reconciliation of conflicts

IV. Methods of influencing conditions in the credit markets

- A. The discount rate and discount administration
- B. Open market operations
- C. Regulation of reserve requirements
- D. Selective credit controls

V. Federal Reserve policy in operation

VI. Comments on Extension Problem

QUESTIONS FOR EXTENSION PROBLEM

Directions: Answer each of these questions for the period September 30, 1954 - March 31, 1955 and for the period March 31, 1955 - September 30, 1955.

- I. On the basis of the table "Business Indexes" in the Federal Reserve Bulletin, describe economic developments during the period.
- II. On the basis of the tables "Security Markets" and "Money Market Rates", describe developments in the financial market during this period.
- III. Comment briefly on other outstanding economic developments during the period.
- IV. What was the net effect on member bank reserves of all non-managed factors during the period?
- V. What did the Federal Reserve System do during the period to influence member bank reserves?
- VI. On the basis of the table "Deposits, Reserves and Borrowings of Member Banks", indicate what happened to excess reserves, borrowings, and net "free" or "deficient" reserves during the period. (Note: These are monthly averages.)
- VII. Write a brief essay in which you relate what the Federal Reserve System did (answers 5 and 6) to current developments (answers 1-4).