

MGMT 673 – Global Economic Analysis
Assignment 2: The Central Bank

Due Date

This assignment is due by the end of Module 4.

Objective

During the recent Great Recession, U.S. Federal Reserve Board Chairman Ben Bernanke applied lessons learned from the Great Depression of the 1930s in which government policies failed to bring the U.S. and the world out of an epic economic slump. Under Bernanke's leadership, the Federal Reserve acted aggressively to stem the downturn that began in the summer of 2008. The objective of this written assignment is to gain a greater understanding of the central bank's role in managing the economy and, specifically, the actions taken by the U.S. Federal Reserve System to combat the Great Recession.

Directions

Summarize the increasingly aggressive steps the Federal Reserve employed beginning in the summer of 2008 to increase liquidity in the U.S. economy. The deliverables should cover the following points:

1. Circumstances that prompted intervention,
2. Actions taken,
3. Objective and economic rationale,
4. Process including how the Fed paid for the financial assets it purchased, and
5. Effect on the monetary base, money supply and interest rates.

Include graphic illustrations of the monetary base, M2 money supply and short term interest rates over a suitable period of time to provide a visual historical perspective. Conclude with a short analysis of the Fed's actions. Given the tools available at the time, was the Fed successful in meeting its objectives? Finally, discuss the possible dangers that lie ahead in the wake of the Fed's actions since 2008 and recommend how it might gradually reduce its heightened intervention in the U.S. economy.

Thousands of articles and commentary have been published on the Fed's response to the Great Recession. While you are welcome to use any resource, your primary source should be the Fed's own statements. Short monetary policy statements are published after each meeting of the Federal Open Market Committee. Other important statements were published as joint statements with other Federal agencies. All are included in the collection of Press Releases. Unfortunately, it does take some browsing to find the ones of interest. Go to the Board of Governors of the

Federal Reserve System, then to News & Events on the menu. Next, click on Press Releases and then Monetary Policy from the expanded menu. Select 2008 from the drop down menu and look for “FOMC statement,” the first was issued on January 22, 2008. Following this procedure, review the statements from 2008 through 2010 to obtain a chronology of Fed actions. While it is worthwhile to review all of the statements – they are short - the dates of Press Releases announcing a significant change in Fed policy or economic assessment are listed at the bottom of this assignment guidance. Most are policy statements, but a few are joint statements.

The Federal Reserve Bank of St. Louis publishes data and charts of the money supply and interest rates. To gain an appreciation for what is available, go to its website and select Publications/Research and Data/Monetary Trends/Current Issue and review the wealth of monetary charts. While it is acceptable to use screen shots of charts from this resource, the preferred method is to customize the desired charts. The St. Louis Bank makes this easy. From the Federal Reserve Bank of St. Louis homepage, search for FRED (Federal Reserve Economic Data). Browse FRED and you’ll find that it’s easy to produce and download customized charts.

Your paper should be in APA format and include a title page, running head, page numbers, appropriate headings, citations of sources, a references listing and any appendices. The paper should not be longer than four pages not including the title page, reference listing, and appendices. Book length analyses of been published on this general topic, so keep the paper narrowly focused, concisely written, and in your own words (a series of quotations from the Fed press releases does not demonstrate an understanding of the Fed’s policies).

FOMC statements of particular interest:

1/22/08; 3/11/08; 9/16/08; 10/8/08; 10/14/08 (Joint Statement by Treasury, Federal Reserve, and FDIC); 10/29/08; 11/25/08 (2 statements); 12/16/08; 3/23/09 (Joint Statement); 6/24/09; 12/16/09; 1/27/10; 11/3/10; 12/

14/10