

Investor IQ - Test Your Knowledge of The Fed

1. Who is the chairman of the Federal Reserve Board (the Fed)?

- A. Paul Volcker
- B. Ben Bernanke
- C. Alan Greenspan

C. Dr. Ben Bernanke started as chairman and member of the Board of Governors of the Federal Reserve System in February 2006.

2. What is one way that the Fed helps determine the rate of economic growth in the U.S.?

- A. By funding new businesses
- B. By calling in loans from other countries
- C. By raising and lowering interest rates

C. The Fed attempts to speed or to slow economic growth by raising or lowering interest rates. To increase the rate of economic growth, the Fed lowers the federal funds rate — the rate at which commercial banks make overnight loans to each other. When banks can borrow at lower rates, they can then lend to businesses and consumers at lower rates. In time, business and consumer spending is stimulated and economic growth returns. Raising the federal funds rate means raising the cost of loans, thereby slowing down buying — and the rate of economic growth.

3. How else does the Fed try to manage economic growth?

- A. By infusing the economy with cash
- B. By printing new currency
- C. By withdrawing cash from the economy

A and C. When the economy is lagging, the Fed may try to encourage business and consumer spending by purchasing government bonds from securities dealers, who then lend and invest that money — putting cash into the economy. Conversely, when the economy is growing at too fast a pace, the Fed may sell government bonds in an effort to remove cash from the economy.

© 2009 SmartMoney. Prepared by SmartMoney Custom Solutions. SmartMoney is a joint publishing venture of Dow Jones & Company, Inc. and Hearst Communications, Inc. All Rights Reserved.

CustomSolutions
FROM SMARTMONEY