**Chapter 16 Vocabulary**

* **Board of Governors:** 7 member board that oversees the Federal reserve system
* **Monetary policy:** the actions the FED makes to influence the level of real GDP and rate of inflation in the economy
* **Federal reserve districts:** the 12 banking districts created by the Federal Reserve Act
* **Check clearing:** process that banks record whose account gives up and receives money when a customer writes a check
* **Bank holding company:** a company that owns more than one bank
* **Federal funds rate:** interest rates banks charge each other for loans
* **Discount rate:** rate the FED charges for loans to commercial banks
* Net worth = total assets – total liabilities
* **Money creation:** the way money enters into circulation
* **Required reserve ratio (RRR):** ratio of reserves to deposits required of banks by the FED
* **Money multiplier formula:** amount of new money that will be created with each demand deposit calculated as 1 ÷ RRR
* **Excess reserves:** reserves greater than the required amounts
* **Prime rate:** interest rate banks charge on short-term loans to their best customers
* Open market operations: buying and selling of government securities to alter the supply of money
* **Monetarism:** belief that money supply is the most important factor in macroeconomics performance
* **Easy money policy:** monetary policy that increases money supply
* **Tight money policy:** monetary policy that reduces the money supply
* **Inside lag:** delay in implementing monetary policy
* **Outside lag:** the time it takes for monetary policy to have an effect