

## Economics Honors

### Monetary Policy-Glossary of Terms

1. **Capital market.** The market in which corporate equity and longer-term debt securities (those maturing in more than one year) are issued and traded.
2. **Central bank.** Principal monetary authority of a nation, which performs several key functions, including issuing currency and regulating the supply of money and credit in the economy. The Federal Reserve is the central bank of the United States.
3. **Depository institution.** Financial institution that obtains its funds mainly through deposits from the public; includes commercial banks, savings and loan associations, savings banks, and credit unions.
4. **Discount rate.** Interest rate at which an eligible depository institution may borrow funds, typically for a short period, directly from a Federal Reserve Bank. The law requires that the Board of Directors of each Reserve Bank establish the discount rate every fourteen days subject to the approval of the Board of Governors.
5. **Excess reserves.** Amount of reserves held by an institution in excess of its reserve requirement and required clearing balance.
6. **Federal funds rate.** The interest rate at which banks borrow surplus reserves and other immediately available funds. The federal funds rate is the shortest short-term interest rate, with maturities on federal funds concentrated in overnight or one-day transactions.
7. **Fiscal policy.** Federal government policy regarding taxation and spending set by Congress and the Administration.
8. **Foreign currency operations.** Purchase or sale of the currencies of other nations by a central bank for the purpose of influencing foreign exchange rates or maintaining orderly foreign exchange markets. Also called foreign exchange market intervention.
9. **Foreign exchange rate.** Price of the currency of one nation in terms of the currency of another nation.
10. **Government securities.** Securities issued by the U.S. Treasury or federal agencies.
11. **Gross domestic product (GDP).** The total market value of a nation's final output of goods and services. GDP may be expressed in terms of product—consumption, investment, government purchases of goods and services, and net exports—or, it may be expressed in terms of income earned—wages, interest, and profits.
12. **Inflation.** The rate of increase of the general price level of all goods and services. (This should not be confused with increases in the prices of specific goods relative to the prices of other goods.)
13. **Inflationary expectations.** The rate of increase in the general price level anticipated by the public in the period ahead.
14. **Long-term interest rates.** Interest rates on loan contracts—or debt instruments such as Treasury bonds or utility, industrial, or municipal bonds—having maturities greater than one year. Often called capital market rates.

15. **Market interest rates.** Rates of interest paid on deposits and other investments, determined by the interaction of the supply of and demand for funds in financial markets.
16. **Monetary policy.** A central bank's actions to influence short-term interest rates and the supply of money and credit, as a means of helping to promote national economic goals. Tools of U.S. monetary policy include open market operations, discount rate policy, and reserve requirements.
17. **Nominal interest rates.** Stated rates of interest paid or earned; often thought of as consisting of a real rate of interest and a premium to compensate for expected inflation.
18. **Open market operations.** Purchases and sales of government and certain other securities in the open market, through the Domestic Trading Desk at the Federal Reserve Bank of New York as directed by the Federal Open Market Committee. Open market operations influence short-term interest rates and the volume of money and credit in the economy. Purchases inject reserves into the banking system and stimulate growth of money and credit; sales do the opposite.
19. **Productivity.** The amount of output per hour of work.
20. **Real GDP.** The value of GDP in constant (that is, inflation-adjusted) dollars, which is used as a measure of the nation's final output.
21. **Real interest rates.** Interest rates adjusted for the expected erosion of purchasing power resulting from inflation. Technically defined as nominal interest rates minus the expected rate of inflation.
22. **Short-term interest rates.** Interest rates on loan contracts—or debt instruments such as Treasury bills, bank certificates of deposit, or commercial paper—having maturities less than one year. Often called money market rates.
23. **Total nonfinancial debt.** Includes outstanding credit market debt of federal, state, and local governments and of private nonfinancial sectors (including mortgages and other kinds of consumer credit and bank loans, corporate bonds, commercial paper, bankers acceptances, and other debt instruments).