

## How Does the Fed Seek to Influence Interest Rates?

This month, *Extra Credit* offers a set of guided reading questions for your students to use as they read the *Economy Matters* [article](#) "How the Fed Seeks to Influence Interest Rates." The article by staff writer Charles Davidson discusses how monetary policy is "transmitted" through various channels to influence the federal funds rate. The article contains a wonderful explanation of interest on excess reserves from Atlanta Fed vice president and senior economist Paula Tkac.

1. What is the federal funds rate?
2. How does the Fed target the federal funds rate?
3. How do changes in interest rates affect people's behavior in the economy?
4. Identify and describe the Federal Open Market Committee's (FOMC) main tool of monetary policy since the 2008 financial crisis.
5. What is opportunity cost, and how does it play a role in today's monetary policy?
6. Before the 2008 financial crisis, the FOMC's primary monetary policy tool was open market operations. What is open market operations, and why has its importance as a monetary policy tool diminished since the financial crisis?