Dalton, Trey,

ECON-102-C

Professor Herdelin

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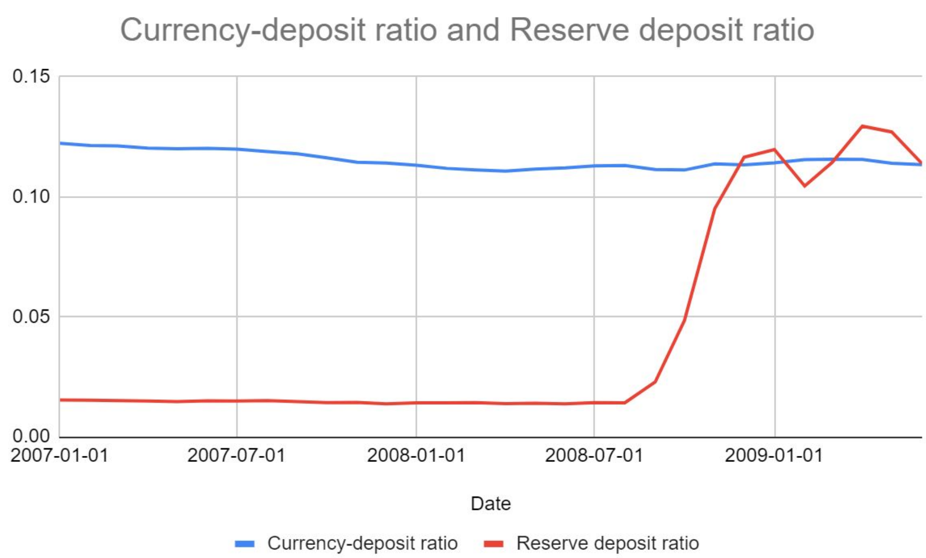
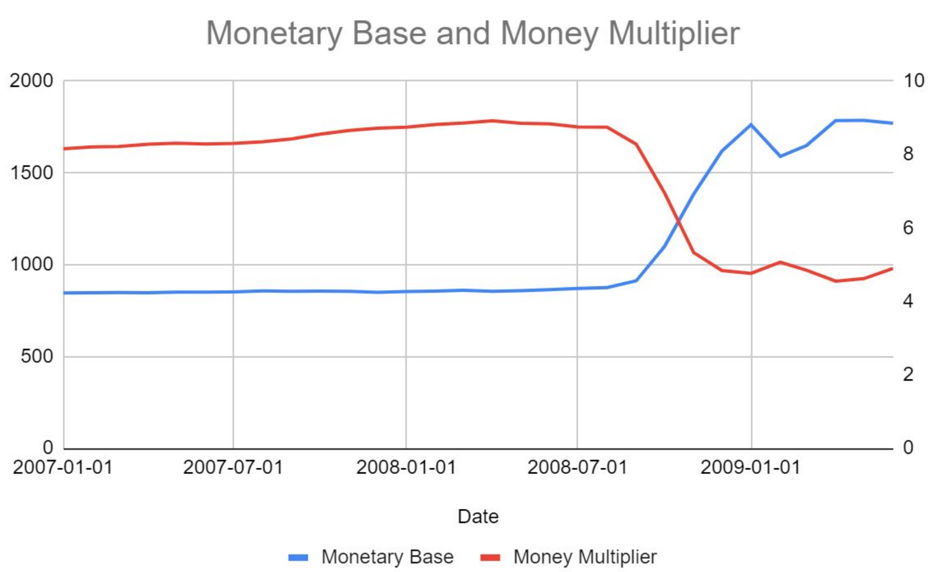
Monetary Policy





The currency-deposit ratio did not vary much during the sample and only had a slight decrease throughout the sample. The reserve-deposit ratio however, saw a huge increase throughout the sample going from roughly 0.014 to 0.13. This indicates that banks greatly increased their reserves, while people did not dramatically increase withdrawing their money from banks. The monetary base and money multiplier had an inverse relationship. They were both steady until July of 2008, when the monetary base almost doubled and the money multiplier was cut in half.

This Fed learned something from the Great Depression in which the money supply fell by 35%, as during this period the money supply slightly increased. While the reserve-deposit ratio did increase like it had in the Great Depression, the currency-deposit ratio did not increase. This caused the money multiplier to essentially be cut in half by the time the Great Recession was over. To counteract this decreasing money multiplier, the Fed increased the Monetary base so that the money supply was actually staying relatively the same or even increasing. This increase in the monetary base was a protective measure against the falling money multiplier and it worked very well. Without the increase in monetary base, the great recession would have also seen a decline in the money supply. Without this increase in the monetary base, it is possible that the money supply could have dropped 35% like what had happened during the Great Depression. The Fed learned a great deal from the time of the Great Depression and successfully prevented the Great Recession from being a repeat of the Great Depression.