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The FRED® Blog

Fixing the “Textbook Lag” with FRED (Part I)

Monetary policy in a world of ample reserves



Posted on June 10, 2019



CPI +3.2 % Chg. from Yr.
Ago on Feb 2024

Civ. Unemploy. Rate 3.9 % on Feb 2024

10-Yr. Treas. Rate 4.22 % on 2024-03-22

Real GDP +3.2 %, Comp.
Annual Rate of Chg.
on Q4 2023

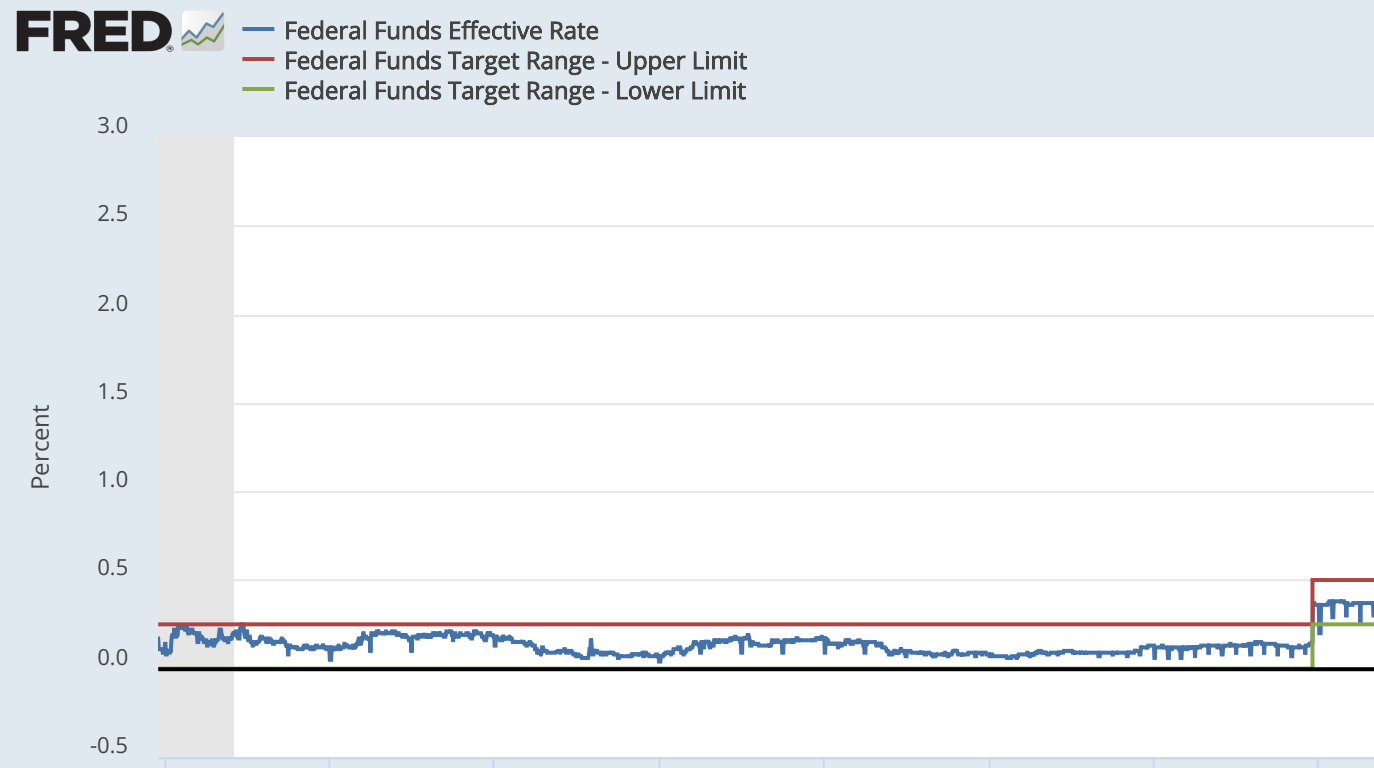
IP +0.1 % Chg.
on Feb 2024

Payroll Employment +275 Chg., Thous. of
Persons on Feb 2024

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Your economics textbook may still say the Federal Reserve uses open market operations to influence the federal funds rate. But in today's economy, the Fed uses different policy tools.

Before September 2008, when reserves were scarce, the Federal Reserve bought and sold relatively small quantities of Treasury securities to adjust the level of bank reserves and influence the federal funds rate (FFR). But we now live in an environment of ample reserves. As such, the Federal Reserve can no longer effectively influence the FFR by making small changes in the supply of those reserves. Instead, the Fed uses its newer tools—paying interest on excess reserves (IOER) and the overnight reverse repurchase agreement (ON RRP) facility—to influence the FFR.

Since December 16, 2008, the FOMC has set a target *range* for the FFR, rather than a specific single target, and uses the rates on IOER and the ON RRP facility to keep the FFR rate in that target range. This process has ensured that the FFR has remained between the upper limit and the lower limit of the range.

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The graph above tracks the actual FFR and the upper and lower limits of the range. Our next FRED Blog post provides more details. Stay tuned...

For more information on this topic, see “[A New Frontier: Monetary Policy with Ample Reserves.](#)”

How this graph was created: Search for “federal funds rate target”; select “Federal Funds Target Range – Upper Limit,” “Federal Funds Rate – Lower Limit,” and “Effective Federal Funds Rate (daily)”; and click “Add to Graph.” Adjust the date to show the entire period: December 16, 2008, to the current date. In each case, you can adjust the colors to your liking by using the color palette in the “Edit Graph” panel’s “Format” tab.

Suggested by [Scott Wolla](#).

View on FRED, series used in this post: [DFEDTARL](#), [DFEDTARU](#), [DFF](#)
