Multiple Choice No. 14

The correct answer is choice **a**. To quote the textbook,

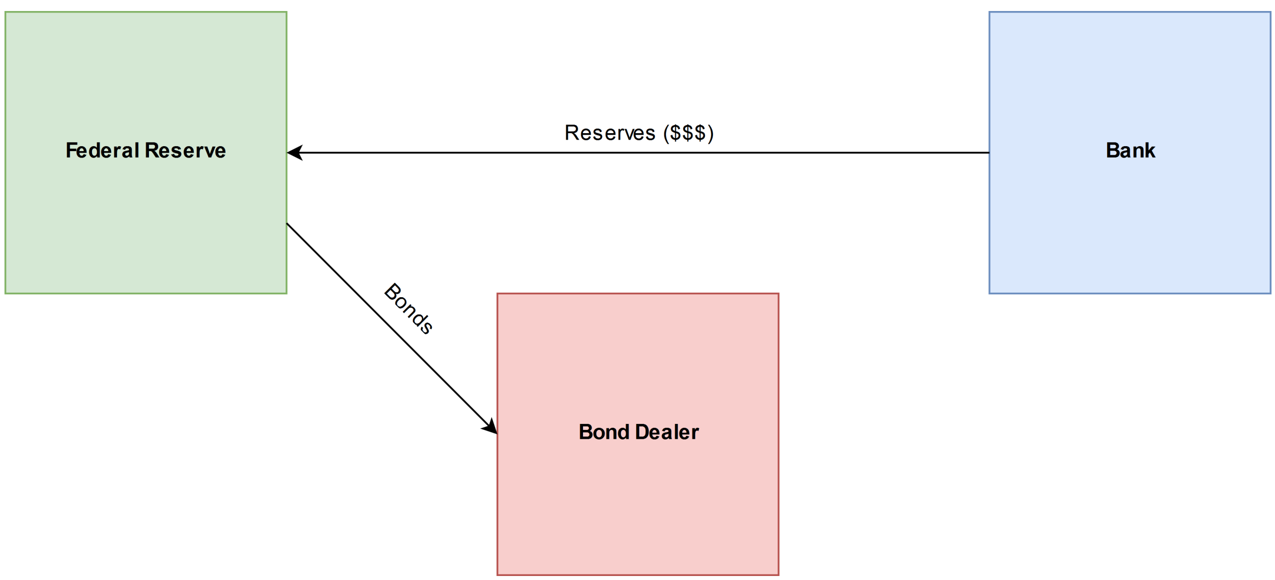
> The Federal Open Market Committee is made up of the seven members of the board of governors and five of the twelve regional bank presidents. All twelve regional presidents attend each FOMC meeting, but only five get to vote. Voting rights rotate among the twelve regional presidents over time. The president of the New York Fed always gets a vote, however, because New York is the traditional financial center of the U.S. economy and because all Fed purchases and sales of government bonds are conducted at the New York Feds trading desk.

So the seven governors vote, as do five of the district bank presidents. (The New York president always gets a vote.) See section 11-2b for more.

Written Response 1.3

The Fed is selling $400 in government bonds to the dealer. The dealer is paying with his checking account. To summarize the flows,

- $400 goes from the bank to the Fed (out of the dealer's checking account).
- Bonds go from the Fed to the dealer.



So the bank sees a fall of $400 in deposits as the dealer's check dictates that these funds must be given to the Fed. The bank was using these $400 in deposits as reserves, but is no longer able to do so since those funds are gone—and therefore reserves fall by $400 as well. So the bank's T-account is

Bank of America

Assets		**Liabilities**	
Reserves	-400	Deposits	-400
Bonds	0	Bank Borrowing	0
Loans	0	Bank Capital	0
Total Assets	-400	Total Liabilities	-400