Central Banking Word Search

Answer Key

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10 Terms & Definitions

FOMC
The Federal Open Market Committee (FOMC) is the policy-making body of the Federal Reserve that sets US monetary policy. It consists of 12 members: the 7 members of the Board of Governors and 5 of the 12 regional Federal Reserve Bank presidents. The FOMC meets eight times per year

RESERVE
Bank reserves are the funds that commercial banks keep on hand — either in their vaults or deposited at the Federal Reserve — to meet withdrawal demands and regulatory requirements. The Federal Reserve pays interest on reserves (IOER), which influences how banks manage liquidity.

MONETARY
Monetary policy refers to the actions taken by a central bank to manage the money supply and interest rates in pursuit of economic goals — typically price stability (low inflation) and maximum employment. The two main types are expansionary policy (lowering rates, buying assets t

LIQUIDITY
Liquidity refers to the ease with which an asset can be converted to cash without significantly affecting its price. In banking, liquidity means having sufficient cash or easily sellable assets to meet deposit withdrawals and loan demands. The Federal Reserve acts as the "lender

INFLATION
Inflation is the rate at which the general price level of goods and services rises, reducing the purchasing power of money. Central banks typically target 2% annual inflation as the optimal balance between economic growth and price stability. Inflation is measured by indices like

STIMULUS
Economic stimulus refers to policies designed to encourage economic activity during downturns. Monetary stimulus includes lowering interest rates and quantitative easing. Fiscal stimulus involves government spending and tax cuts. Central banks provide monetary stimulus when the e

TAPERING
Tapering refers to the gradual reduction of a central bank's asset purchases (quantitative easing program). Rather than abruptly stopping bond purchases — which could shock markets — the Fed tapers by progressively reducing the monthly purchase amount. Taper announcements can cau

MANDATE
The Federal Reserve operates under a "dual mandate" established by Congress: to promote maximum employment and stable prices (low inflation). These two goals sometimes conflict — fighting inflation requires raising rates, which can slow hiring; stimulating employment requires low

OVERNIGHT
The overnight rate (or federal funds rate) is the interest rate at which commercial banks lend their excess reserves to each other on an overnight basis. It is the primary tool the Federal Reserve uses to implement monetary policy. By raising or lowering the overnight rate, the F

EASING
Quantitative easing (QE) is a non-conventional monetary policy tool used when interest rates are already near zero and cannot be lowered further. The central bank creates new money and uses it to buy government bonds and other financial assets from banks. This injects liquidity i