- can raise and lower the reserve requirement: % of every deposit that must be set aside.
- Excess Reserves: legal reserves in excess of the reserve requirement, can be loaned out.

1. How banks operate
   a) liabilities
      - debts and obligations to others
   b) assets: properties, possessions, and claims on others.
   - These are compared on a "balance sheet."
     - these are used to determine net worth.
2. Reaching Maturity
   - Banks worry about liquidity: potential to turn to cash quickly

B. Tools of Monetary Policy

1. - easy money policy: fed allows the money supply to grow and interest rates to fall, which normally stimulates the economy.
   - When interest rates are low, people tend to buy on credit, which encourages sales at stores and production at factories.
2. Tight Money Policy
   - fed restricts the growth of the money supply, which drives interest rates up.
   - When interest rates are high, consumers and businesses borrow and spend less, which slows growth.
3. Reserve Requirement
   - how much money banks need to keep on hand.
   - lower reserve requirement = can loan out more money
   - raise reserve requirement = can loan out less money.
4. Open Market Operations
   - Buying and selling government securities on the market
   - Buying securities = increasing the money supply = b/c they are buying from you.
   - Selling Securities = decrease the money supply b/c you are buying them