

# Week 3 Homework: Federal Reserve System

ECO 301: Money and Banking

# Homework 3: Federal Reserve System

1. Thomas Hoenig, former president of the Federal Reserve Bank of Kansas City, remarked about the Federal Reserve System: "It was designed as a public-private partnership, accountable to, and yet independent of, the government."
2. In two to four sentences, describe in what sense is the Federal Reserve System a public-private partnership.
3. In two to four sentences, describe what sense is the Federal Reserve System both accountable to the government and independent of it?

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4. In 2020, in response to the economic effects of the COVID-19 pandemic, The Bank of England (the central bank of the United Kingdom) announced it would engage in "monetary financing" to help the government finance its increased spending, in which the British government would receive funds directly from the Bank of England, and then issue bonds to pay back the Bank of England. An article in *The Economist* described "Monetary financing, with its echoes in Weimar Germany and Zimbabwe, raises fears that investors will lose confidence in a central bank seen to be under the thumb of [the government]."

- a) Explain the reference to Zimbabwe and Weimar Germany.
- b) Describe what macroeconomic outcomes investors may fear could happen in response to a policy of monetary financing. Describe potential impacts on inflation, lending, and investment (i.e. investment in physical capital).
- c) Describe two benefits of an independent central bank.