Table 10.6

Action by the Fed	Effect on the money supply
Buy government bonds from banks or the public	Increases total bank reserves, which causes deposit expansion and an increase in the money supply
Sell government bonds to banks or the public	Reduces total bank reserves, which causes deposit contraction and a decrease in the money supply
Lower the reserve requirement (the required reserve ratio)	Decreases banks' *required* reserves, which causes deposit expansion and an increase in the money supply
Raise the reserve requirement (the required reserve ratio)	Increases banks' *required* reserves, which causes deposit contraction and a decrease in the money supply
Lower the discount rate	Encourages banks to borrow reserves from the Fed, which causes deposit expansion and an increase in the money supply
Raise the discount rate	Discourages banks from borrowing reserves from the Fed, which causes deposit contraction and a decrease in the money supply
Direct credit controls	Prevents certain types of lending by banks, which restricts the money supply
Moral suasion	Restricts (encourages) lending by banks, which restricts (increases) the money supply
Interest rate restrictions	Lowers the attractiveness of certain deposit liabilities, which discourages deposit expansion and restricts the money supply
Deposit insurance (by the FDIC)	Encourages people to use bank deposits instead of cash, which tends to increase the money supply