



Finance and Economics Discussion Series: Declining Required Reserves and the Volatility of the Federal Funds Rate

By James A Clouse, Senior Fellow Douglas W Elmendorf

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.Low required reserve balances in 1991 led to a sharp increase in the volatility of the federal funds rate, but similarly low balances in 1996 did not. This paper develops and simulates a microeconomic model of the funds market that explains these facts. We show that reductions in reserve balances increase the volatility of the federal funds rate, but that this relationship changes over time in response to observable changes in bank behavior. The model predicts that a continued decline in required reserves could increase funds-rate volatility significantly.

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