Interest rates explained

%

Explore how the Fed keeps the economy on track through monetary policy, and how its moves ultimately ripple outward.

The Federal Reserve

The central bank of the U.S. helps keep the economy stable.

Tools

– Raising and lowering the federal funds target rate

– Buying and selling securities to adjust the money supply

Goals

– Low unemployment

– Inflation **~2%**

The ripple effect

Fed increases money supply

- more money available spurs *lower rates*
- cheaper to borrow
- encourages spending
- boosts economic activity

Fed decreases money supply

- less money available spurs *higher rates*
- more expensive to borrow
- encourages saving money
- slows down the economy

Highs and lows

Highest federal funds rate: **20%**
Catalyst: Runaway inflation in 1979 and 1980

Lowest federal funds rate: **0%-0.25%**
Catalyst: Pandemic in 2020

FUN FACTS

The “10 dollar founding father,” Alexander Hamilton laid the foundation for the Federal Reserve, creating the nation’s original central bank.

The Fed has been led by some brilliant minds. Former Fed Chair Janet Yellen was named by Nobel laureate Joseph Stiglitz as one of his brightest students. Another Fed alum, Ben Bernanke, taught himself calculus in school.

Sources: Raymond James research; TIME magazine; Business Insider; Federal Reserve Bank of St. Louis

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