ECON FOCUS
READING Q&A

JARGON ALERT: Helicopter Money

After reading the article (https://www.richmondfed.org/-/media/richmondfedorg/publications/research/econ_focus/2016/q2/pdf/jargon_alert.pdf) answer the following questions:

1. What is helicopter money and how would a central bank utilize it to stimulate the economy?

2. How does helicopter money differ from traditional expansionary monetary policy?

3. If a central bank were to use helicopter money, what would the central bank want people to do with the transfer payments?

4. How could helicopter money potentially undermine the independence of central banks?

5. In what scenario would the Fed consider using helicopter money as a monetary policy tool?

GLOSSARY

Deflation: A general, sustained downward movement of prices for goods and services in an economy.

Fiscal policy: Spending and taxing policies of the federal government to influence the economy.

Inflation: A general, sustained upward movement of prices for goods and services in an economy.

Interest rate: The percentage of the amount of a loan that is charged for a loan. Also, the percentage paid on a savings account.

Monetary policy: Central bank actions involving the use of interest rate or money supply tools to achieve such goals as maximum employment and stable prices.

Negative interest on excess reserves: This unconventional monetary policy tool sees central banks encourage lending by making it costly for commercial banks to hold excess reserves at central banks so they will lend more readily to businesses and consumers.

Transfer payments: Payments by governments to people who do not supply goods, services, or labor in exchange for the payments.

Quantitative Easing (QE): A monetary policy in which a central bank makes large-scale asset purchases designed to bolster financial market conditions.

Recession: A period of declining real income and rising unemployment; significant decline in general economic activity extending over a period of time.