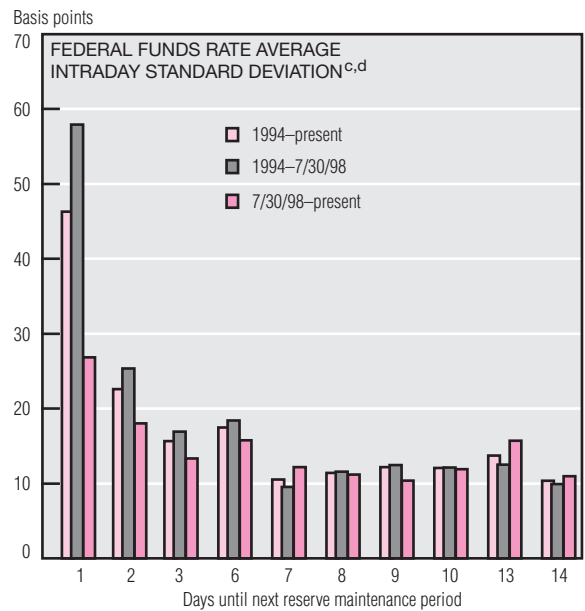
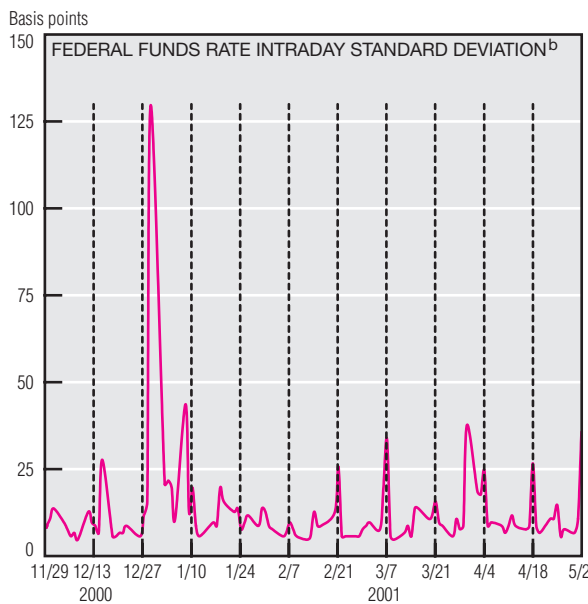
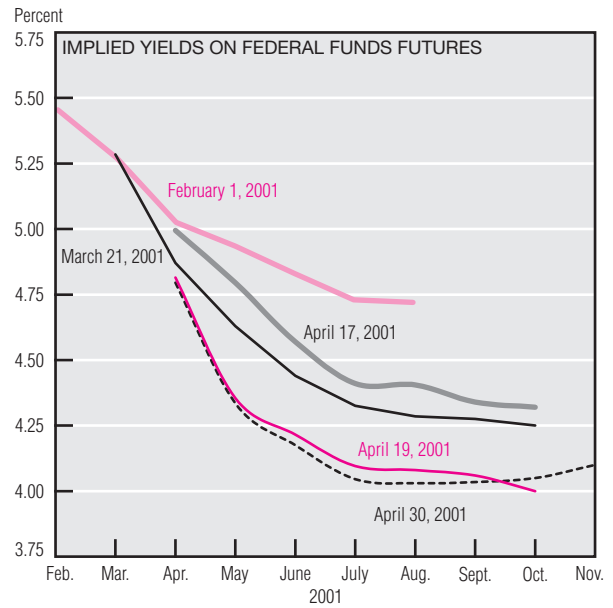
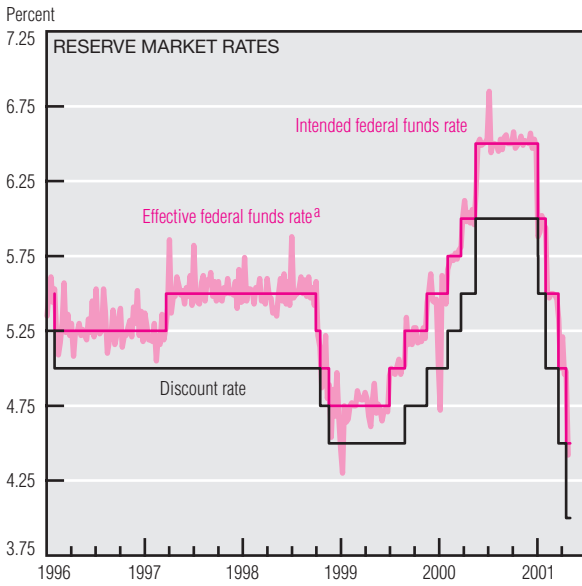


Monetary Policy



- a. Weekly average.
 - b. Dashed lines indicate the final day of a reserve maintenance period.
 - c. Averages are taken from January 3, 1994 to April 30, 2001 and exclude nontrading days.
 - d. Required reserves are based on an average of transaction account balances over a two-week period. Before July 30, 1998, this period ended the Monday before the reserve maintenance period ended. Since that date, the two-week period has ended the Monday before the end of the preceding maintenance period.
- SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15; Federal Reserve Bank of New York; and Chicago Board of Trade.

In an intermeeting action on April 18, 2001, the Federal Open Market Committee (FOMC) lowered the intended federal funds rate 50 basis points (bp) to 4.5%, its lowest level since August 1994. Its April 18 press release noted that lower capital spending and other factors threaten "to keep the pace of economic activity unacceptably weak."

Immediately after the April 18 action, implied yields on fed funds futures dropped 18–44 bp across the various maturity dates. As of April 30,

the November contract traded at 4.1%, 40 bp below the current intended federal funds rate.

The federal funds rate typically varies over the course of a day, even though the daily average ("effective") rate tends to remain fairly close to its intended level. The rate's intraday standard deviation rises markedly toward the end of a two-week reserve maintenance period.

A bank satisfies its reserve requirement by averaging its end-of-day balances at a Federal Reserve Bank

over a maintenance period. Intraday funds rate variations increase during a period as reserve managers enjoy less and less freedom in adjusting actual balances to meet their requirements. This effect lessened when the Fed switched to a system of lagged reserve accounting in July 1998, eliminating banks' uncertainty about required balances. Intraday volatility also tends to rise at the end of each quarter and on corporate tax dates, when banks may have to scramble for balances to cover large payments flows.