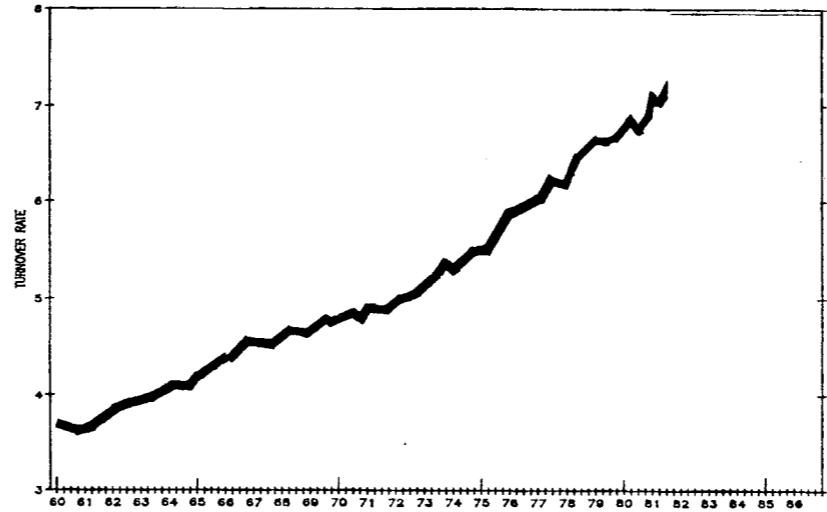
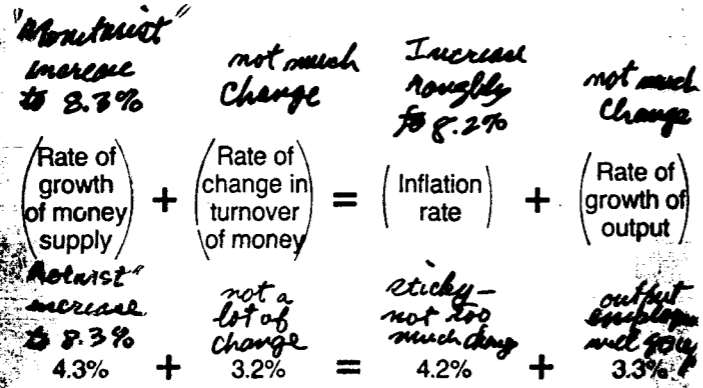


Slide 1-3

M1 VELOCITY
1960:1-1986:4 (Quarterly)

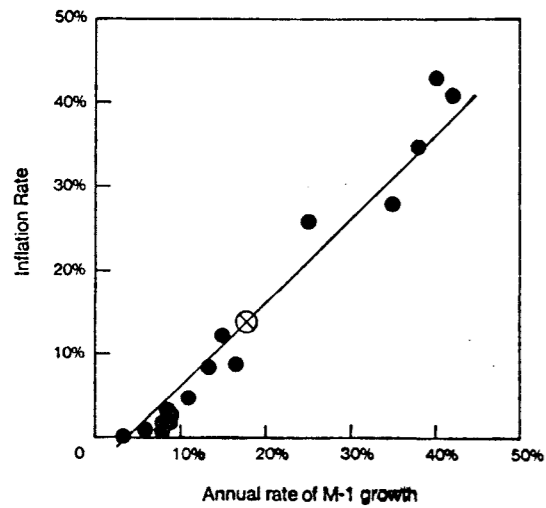


Slide 1-2 with overlay and written comments



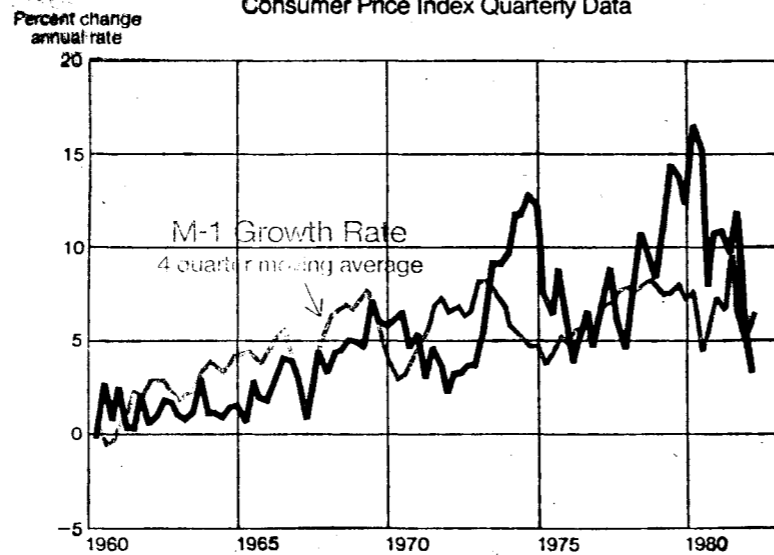
Slide 1-4

Inflation Rate vs. M-1 Growth Rate
1950-69 for 16 Latin American Countries



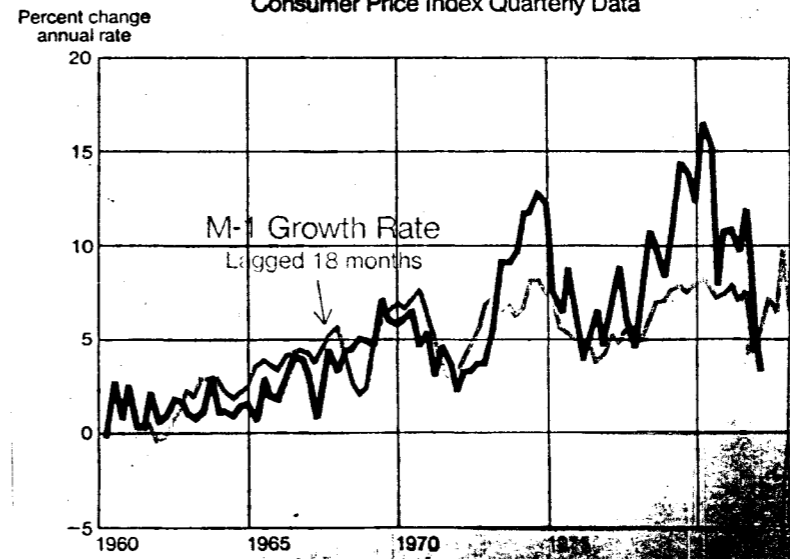
Slide 1-5 (A)

Inflation Rate 1960-1983
Consumer Price Index Quarterly Data

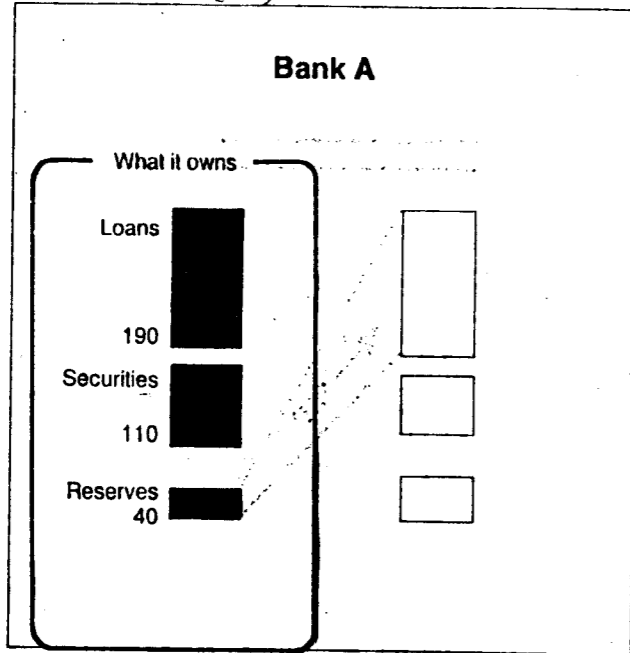


Slide 1-5 (B)

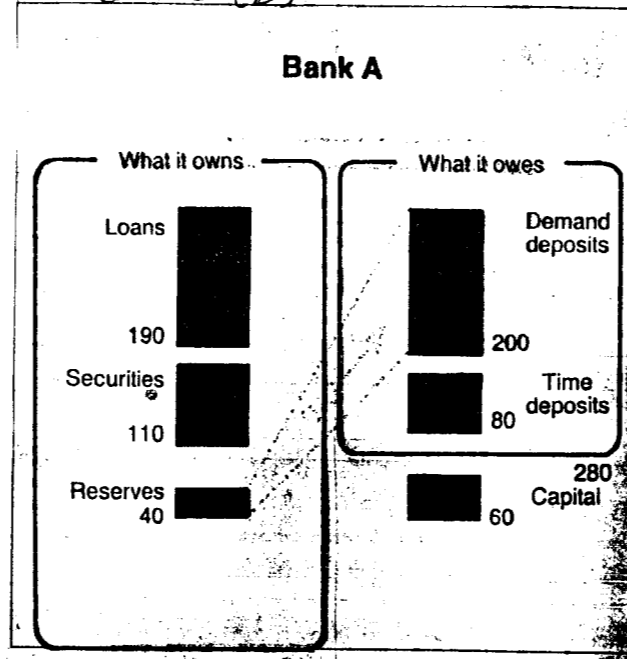
Inflation Rate 1960-1983
Consumer Price Index Quarterly Data



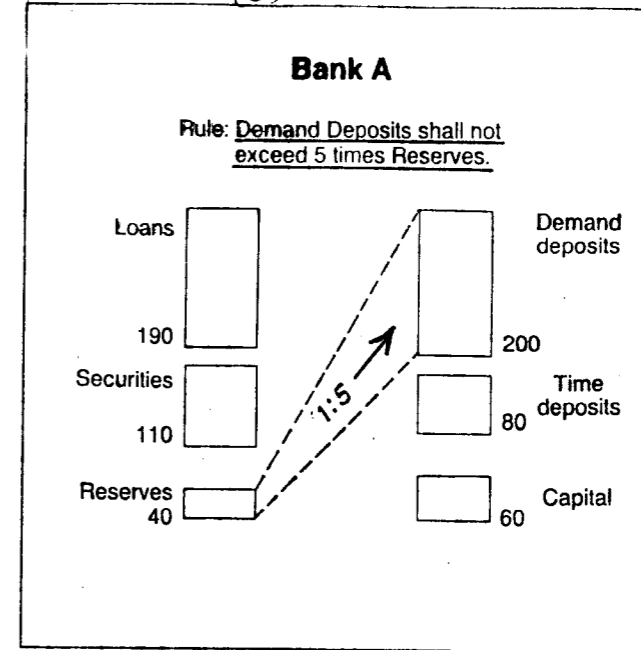
Slide 2-1 (A)



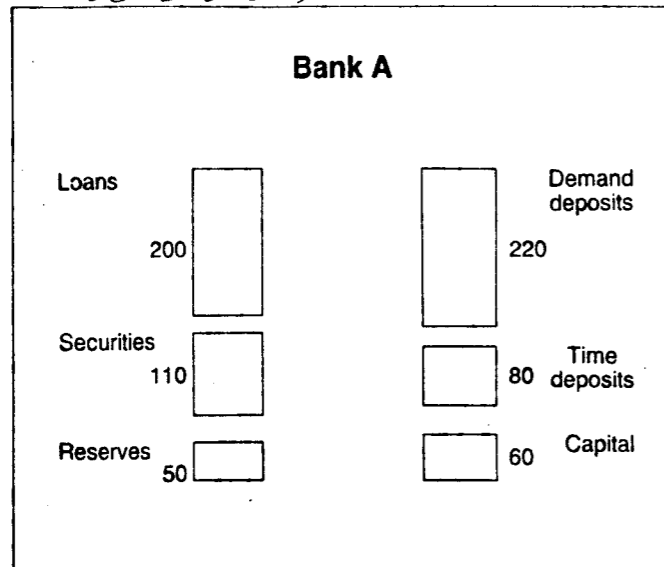
Slide 2-1 (B)



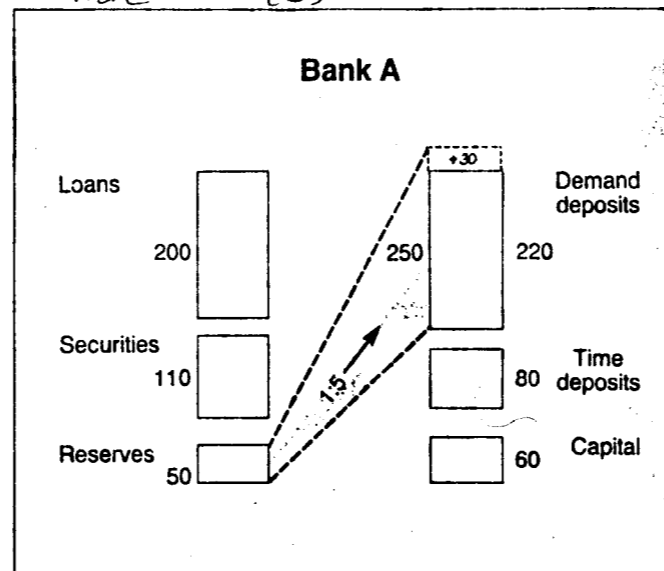
Slide 2-1 (C)



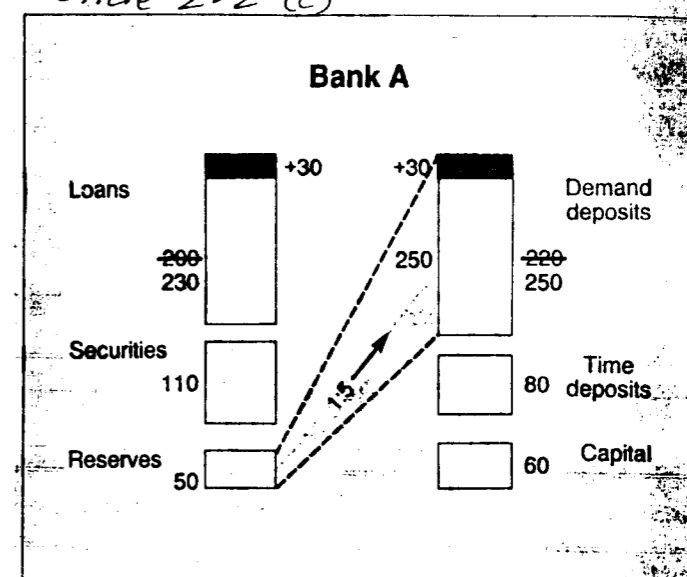
Slide 2-2 (A)



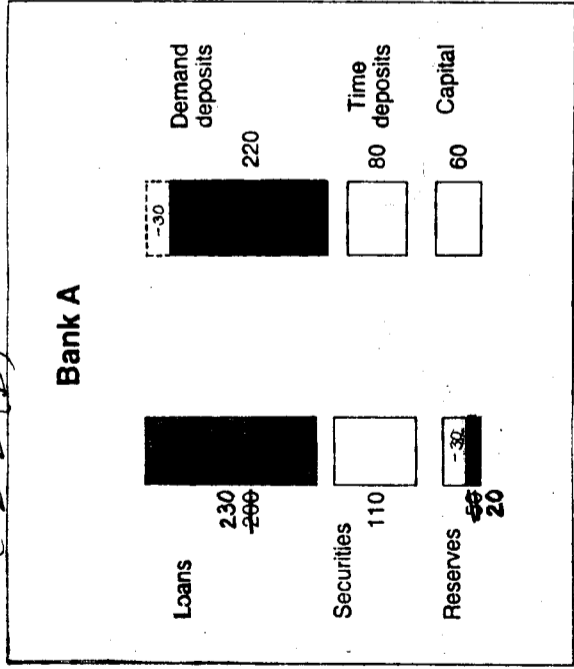
Slide 2-2 (B)



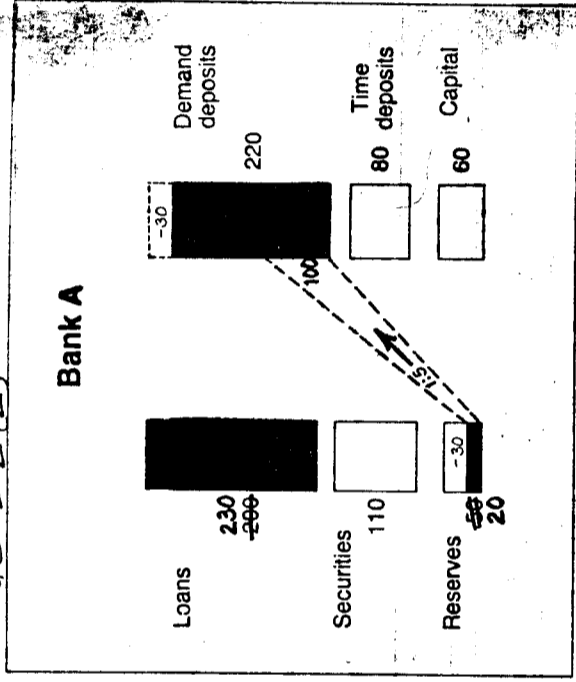
Slide 2-2 (C)



Slide 2-2 (D)



Slide 2-2 (E)



Slide 2-3 (A)

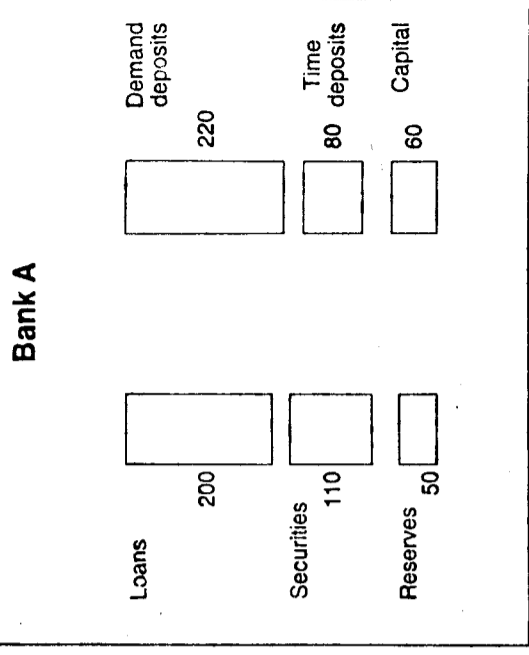


Figure 2-4 (A)

The Reserve-O-Meter®

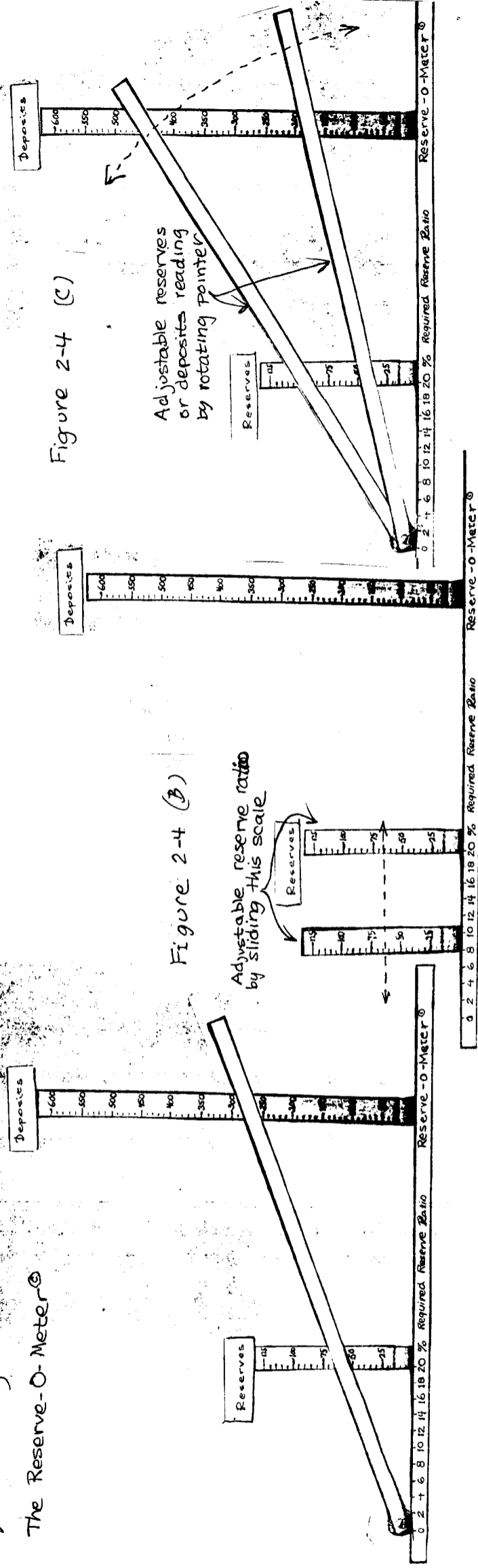


Figure 2-4 (D)

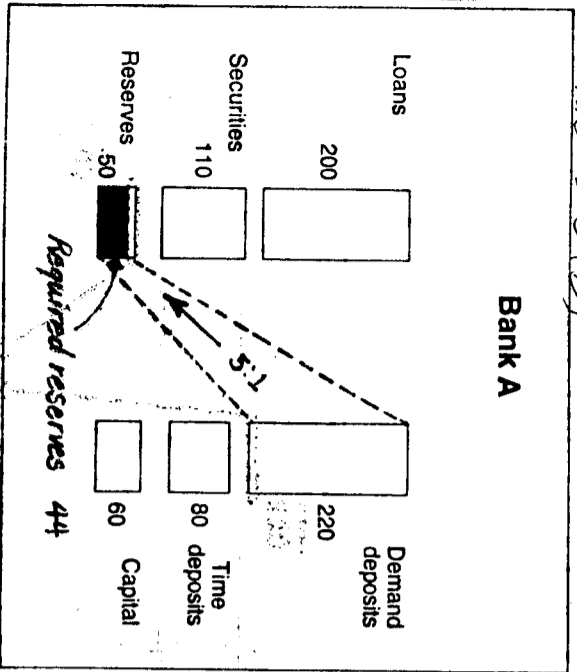
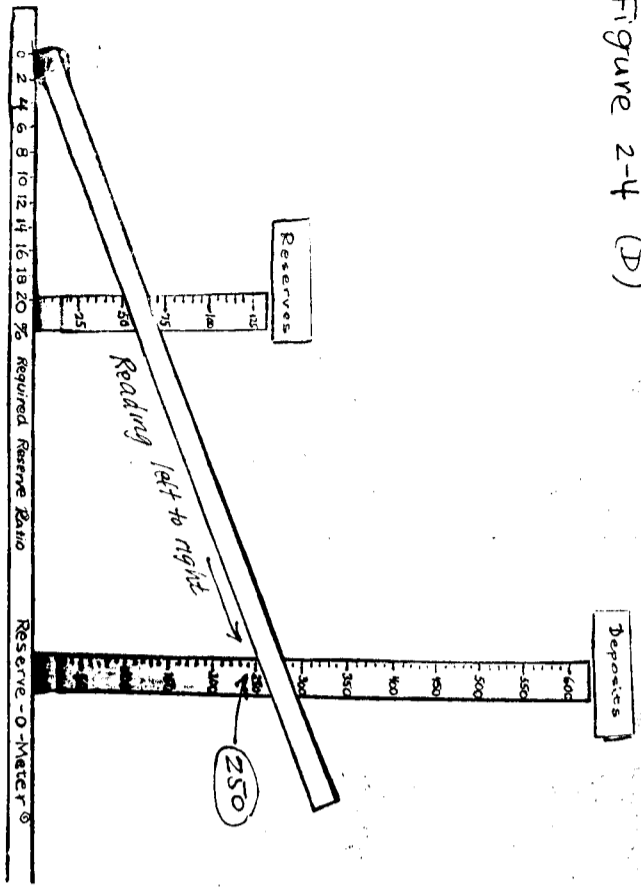
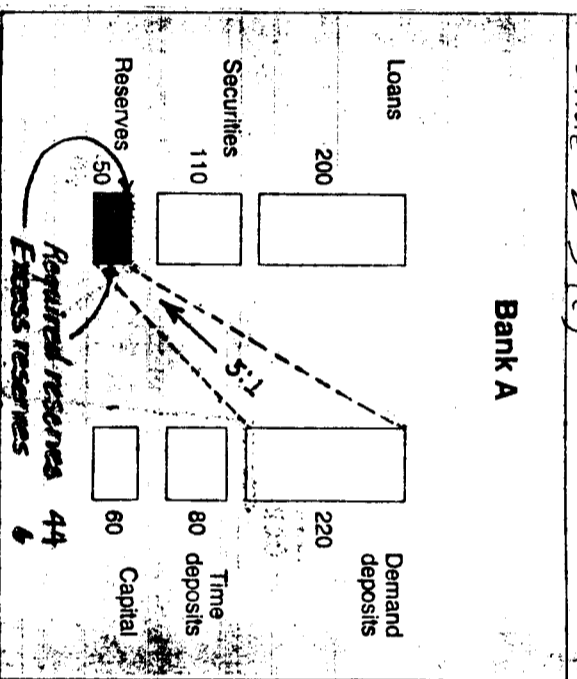
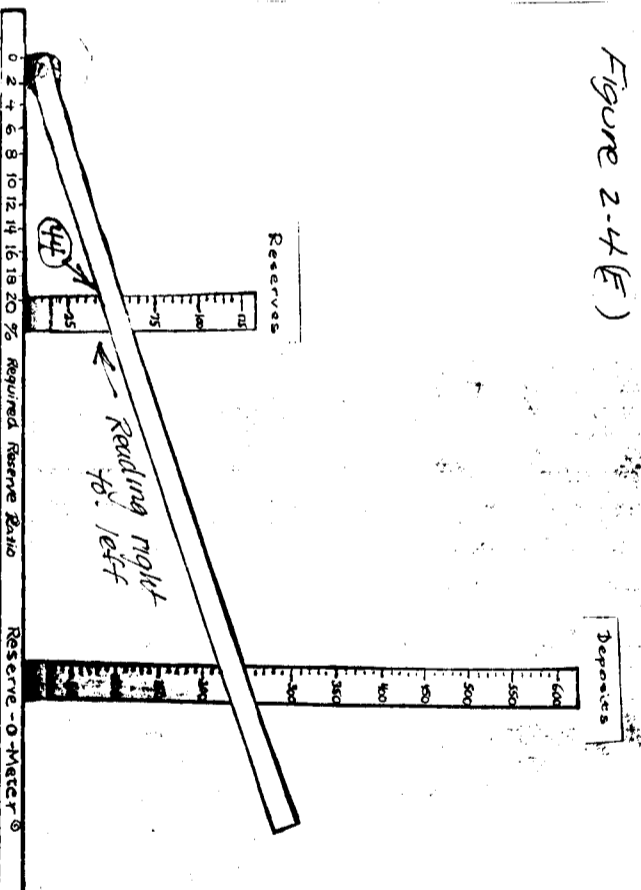
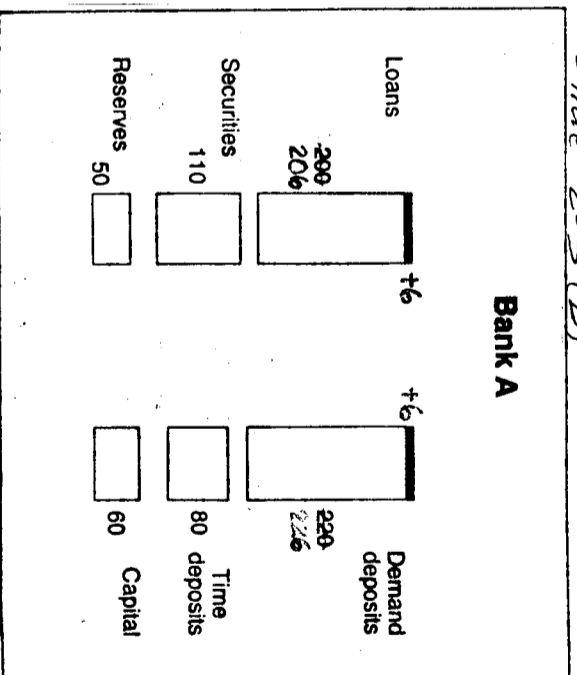


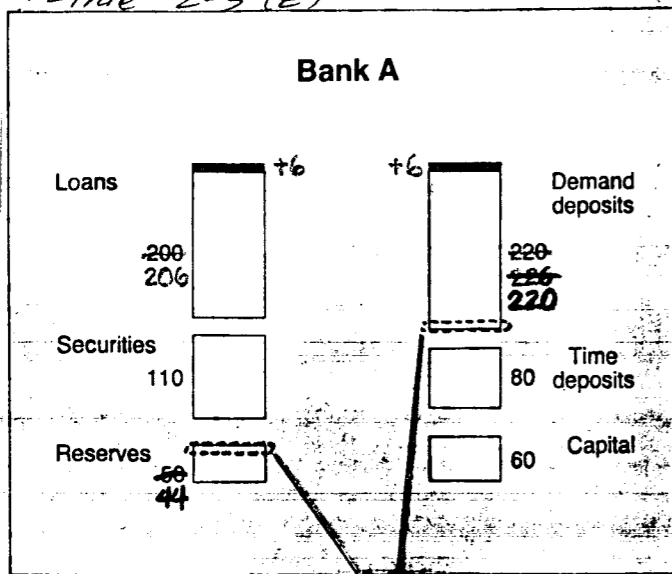
Figure 2-4 (E)



Slide 2-3 (D)



Slide 2-3 (E)



Transferred to Bank X
Reserves 6
Deposits 6

Figure 2-5 (A)

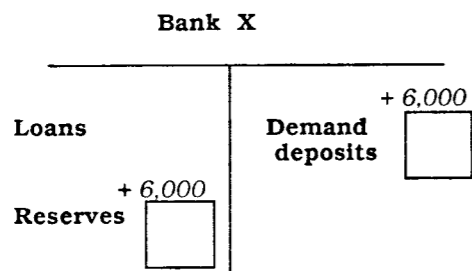


Figure 2-5 (B)

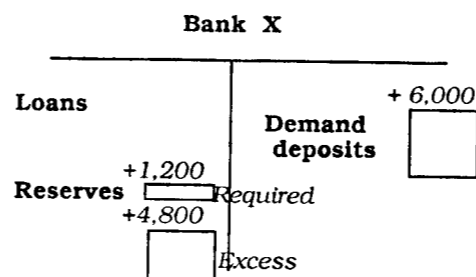


Figure 2-5 (C)

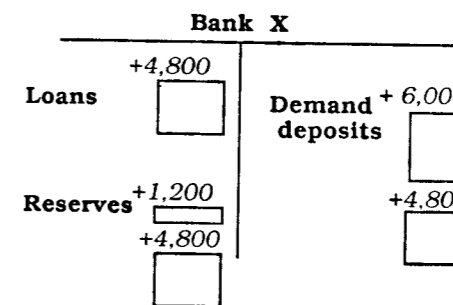


Figure 2-5 (D)

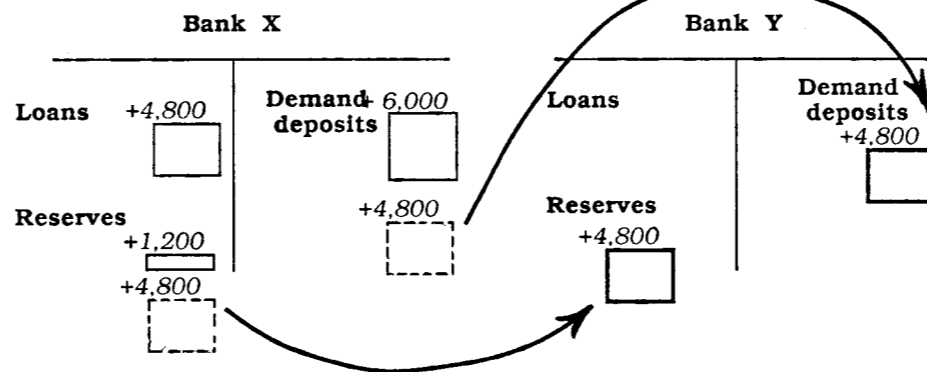
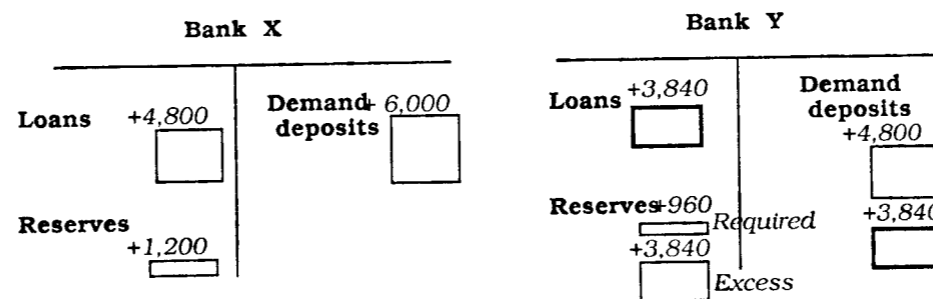


Figure 2-6

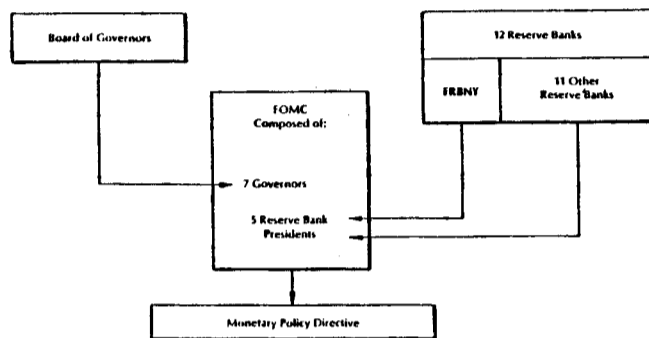
| BANK | AMOUNT OF ADDITIONAL DEPOSITS CREATED |
|--------------|---------------------------------------|
| A | \$6,000 |
| X | + |
| | 4,800 |
| Y | + |
| | 3,840 |
| ⋮ | + |
| ⋮ | ⋮ |
| ⋮ | + |
| | LAST 1 CENT |
| TOTAL | \$30,000 |

Figure 2-5 (E)



Slide 3-1

Exhibit 1-12. Monetary Policy Decision-Making:
The Federal Open Market Committee

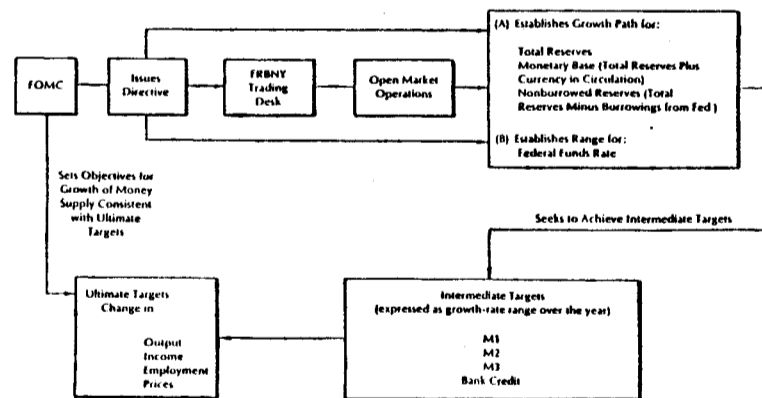


Source: U.S. Board of Governors of the Federal Reserve System.
The Federal Reserve System: Purposes and Functions, Washington, D.C., 1984.

Macroeconomics and the Banking System

Slide 3-2

Exhibit 1-16. The Federal Reserve's Money Market Strategy



Source: U.S. Board of Governors of the Federal Reserve System.
The Federal Reserve System: Purposes and Functions, Washington, D.C., 1984.

Macroeconomics and the Banking System

Slide 3-3

Open Market Committee Directive, March 28, 1989

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat greater reserve restraint would, or slightly lesser reserve restraint might, be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from March through June at annual rates of about 3 and 5 percent, respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 8 to 12 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Guffey, Heller, Johnson, Keehn, Kelley, LaWare, Melzer, and Syron.
Votes against this action: Ms. Seger.

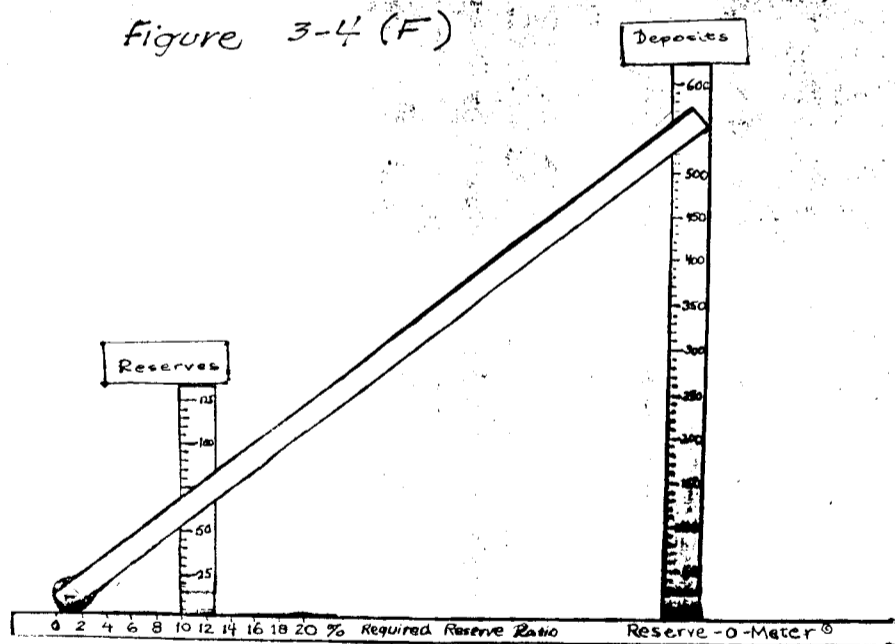


Figure 3.5

| Bank X | | Hammill-Sacks | |
|---------------|-------------------------|---------------|-----------------------|
| Loans | Demand + 97 deposits | Securities | Cash deposits + 97 |
| Securities | | - 97 | |
| Reserves + 97 | | | |

Figure 3.6

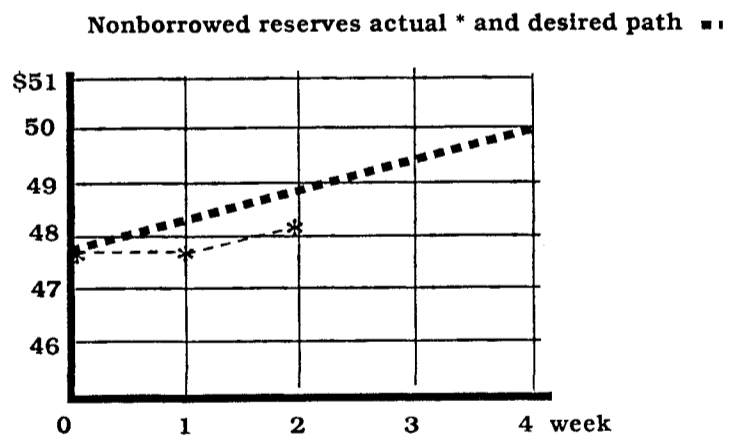
| Bank Y | | Hammill-Sacks | |
|----------------|--------------------------|---------------|------------------------|
| Loans | Demand - 150 deposits | Securities | Cash deposits - 150 |
| Securities | | + 150 | |
| Reserves - 150 | | | |

Figure 3-7

Projections 4 weeks ahead

| | |
|------------------------------------|--------------|
| Money supply target | \$700 |
| less Currency holdings | -180 |
| Demand deposit target | \$520 |
| Required reserves @ 10% | \$52 |
| plus expected excess reserves | +1 |
| Total rereserves target | 53 |
| less expected borrowed reserves | -3 |
| Nonborrowed reserves target | \$50 |

Figure 3-8



Slide 3-9

Fed Isn't Likely To Ease Rates At Its Meeting
As Investors Wait to See if Fed Will Cut Rates Bond Prices Advance a Little in Light Trading

Officials Say Inflation Fight Still Takes Precedence Despite Surge in Dollar

By ALAN MURRAY
 Staff Reporter of The Wall Street Journal
 WASHINGTON—The Federal Reserve is unlikely to ease short-term interest rates at its meeting despite the recent rise in the dollar.

By TOM HERRMAN
 And LAURENCE BAUMAN
 Staff Reporters of The Wall Street Journal
 NEW YORK—Bond prices drifted slightly higher yesterday, helped by lower commodity prices and the dollar's strength against the Japanese yen.

Long-term Treasury bonds climbed 1/4 of a point, or 11.75 for each \$1,000 amount. The yield on the government's benchmark 30-year bonds fell to 11.5% from 11.75% Tuesday. Prices of corporate and mortgage-backed issues also advanced. Municipals, though, were mixed.

as a huge volume of new state and local government issues hit the market, including a \$15 billion issue by New York City.

Fed officials appear as sharply divided as private economists are about the advisability of a credit-easing move. Yesterday, after two days of heated debate, Fed policy makers decided to postpone the decision until next week.

That will give Fed policy-makers time to analyze the May employment report, to be released tomorrow morning by the Labor Department. Also, the May survey of corporate purchasing managers will be released Monday.

If those reports indicate the economy is weakening, the Fed probably will react by trimming short-term interest rates.

Signal From Fed Boosts Bond Prices as Investors Conclude That Interest Rates Will Be Dropping

By TOM HERRMAN and LAURENCE BAUMAN
 Staff Reporters of The Wall Street Journal
 NEW YORK—Treasury bond prices advanced again as an apparent credit-easing move by the Federal Reserve received

ing the right thing," he said. Fed officials are "being very careful in terms of easing because inflation, once you let it out of the bottle, is awfully tough to put back in."

Signs that the Fed might be easing credit first appeared Monday, but traders

huge debt burden.

Further credit-easing moves and throughout the rest of the year, Mr. DeFina of Securities said, will bring about 10%.

Economic Data Are Likely to Bolster Fed

JUNE 12 TRACKING THE ECONOMY

By PAMELA SCHWARTZ
 Staff Reporter of The Wall Street Journal
 NEW YORK—Now that the Federal Reserve seems to have eased its credit clamp based on the belief the economy has slowed, we will soon see whether the latest figures agree.

Generally, expectations call for an easing in many of this week's May economic reports, including retail sales, industrial

said Stuart G. HORTON, PIMCO economist at PNC Financial Corp., Pittsburgh.

Outlook for Prices

That should be comforting news to the Fed, which eased credit last week after a

volatile food and energy market.

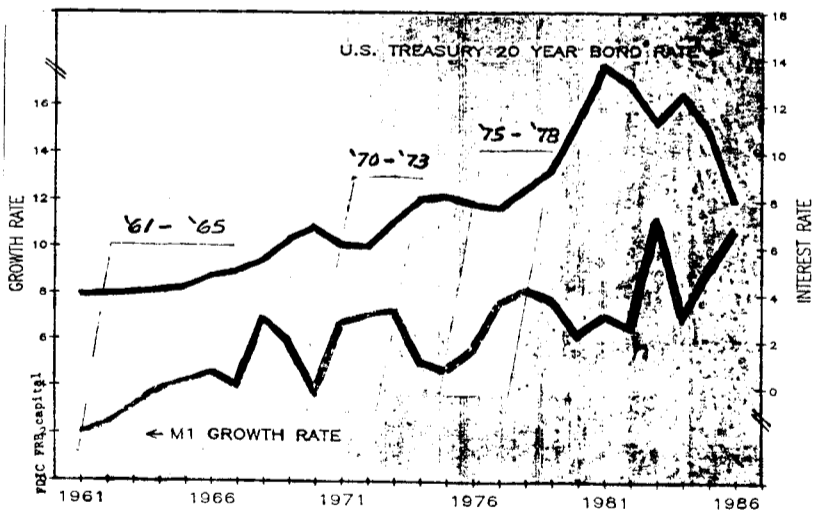
Peter J. Greenbaum, economist at Barney, Harris Upham & Co., expects above average prices, a

Dollar Rally Is Expected as Prospects Of Fed Soon Easing Rates Diminish

By CAMILLA CHAMBERLAIN
 Staff Reporter of The Wall Street Journal
 NEW YORK—The dollar is poised for a

Slide 3-10

BOND INTEREST RATE VS M1 GROWTH RATE



(A)

Figure 4-3(A) - National Income Accounts and the Macroeconomy

| | | | | |
|----------------------------|------------|----------|------------|---------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
|----------------------------|------------|----------|------------|---------|

(B)

Figure 4-3(B) - National Income Accounts and the Macroeconomy

| | | | | |
|---|----------------------|-------------------|-----------------------------|----------------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
| 1. Dollar amount of total final output bought by each | 2,430 Consumption | 665 Investment | 736 Government Purchases | 384 Exports |

(C)

Figure 4-3(C) - National Income Accounts and the Macroeconomy

| | | | | |
|---|----------------------|-------------------|-----------------------------|----------------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
| 1. Dollar amount of total final output bought by each | 2,430 Consumption | 665 Investment | 736 Government Purchases | 384 Exports |
| | = 3,772 GNP | | | |
| | -442 Imports | | | |

(D)

Figure 4-3(D) - National Income Accounts and the Macroeconomy

| | | | | |
|---|----------------------|-------------------|-----------------------------|----------------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
| 1. Dollar amount of total final output bought by each | 2,430 Consumption | 665 Investment | 736 Government Purchases | 384 Exports |
| | = 3,772 GNP | | | |
| 2. Dollar income | Personal Income | Final Sales | Taxes | Imports |
| a. Gross | | | | -442 |
| b. Net after expenses | | Pretax profits | less Transfer Payments | |
| c. Net after expenses and taxes | Disposable Income | After tax profits | less Other Payments | |

(E)

Figure 4-3(E) - National Income Accounts and the Macroeconomy

| | | | | |
|---|----------------------|-------------------|-----------------------------|----------------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
| 1. Dollar amount of total final output bought by each | 2,430 Consumption | 665 Investment | 736 Government Purchases | 384 Exports |
| | = 3,772 GNP | | | |
| 2. Dollar income | Personal Income | Final Sales | Taxes | Imports |
| a. Gross | 3,109 | 3,704 | 1,170 | -442 |
| b. Net after expenses | | Pretax profits | less Transfer Payments | |
| c. Net after expenses and taxes | Disposable Income | After tax profits | less Other Payments | |

(F)

Figure 4-3(F) - National Income Accounts and the Macroeconomy

| | | | | |
|---|----------------------------|--------------------------|-------------------------------|----------------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
| 1. Dollar amount of total final output bought by each | 2,430 Consumption | 665 Investment | 736 Government Purchases | 384 Exports |
| | = 3,772 GNP | | | |
| 2. Dollar income | Personal Income | Final Sales | Taxes | Imports |
| a. Gross | 3,109 | 3,704 | 1,170 | -442 |
| b. Net after expenses | 3,109 | 863 Pretax profits | 713 less Transfer Payments | |
| c. Net after expenses and taxes | 2,669 Disposable Income | 133 After tax profits | 631 less Other Payments | |

(G)

Figure 4-3(G) - National Income Accounts and the Macroeconomy

| | | | | |
|---|----------------------------|------------------------------------|------------------------------------|-------------------------------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
| 1. Dollar amount of total final output bought by each | 2,430 Consumption | 665 Investment | 736 Government Purchases | 384 Exports |
| | = 3,772 GNP | | | |
| 2. Dollar income | Personal Income | Final Sales | Taxes | Imports |
| a. Gross | 3,109 | 3,704 | 1,170 | -442 |
| b. Net after expenses | 3,109 | 863 Pretax profits | 713 less Transfer Payments | |
| c. Net after expenses and taxes | 2,669 Disposable Income | 133 After tax profits | 631 less Other Payments | |
| 3. Net Financial flows | 164 Household savings | (-117) (Net business borrowing) | (-105) Budget surplus (deficit) | 58 Trade (surplus) deficit |
| | = 0 | | | |

(H)

Figure 4-3(H) - National Income Accounts and the Macroeconomy

| | | | | |
|---|----------------------------|------------------------------------|------------------------------------|-------------------------------|
| The Actors (macro sectors) | Households | Business | Government | Foreign |
| 1. Dollar amount of total final output bought by each | 2,430 Consumption | 665 Investment | 736 Government Purchases | 384 Exports |
| | = 3,772 GNP | | | |
| 2. Dollar income | Personal Income | Final Sales | Taxes | Imports |
| a. Gross | 3,109 | 3,704 | 1,170 | -442 |
| b. Net after expenses | 3,109 | 863 Pretax profits | 713 less Transfer Payments | |
| c. Net after expenses and taxes | 2,669 Disposable Income | 133 After tax profits | 631 less Other Payments | |
| 3. Net Financial flows | 164 Household savings | (-117) (Net business borrowing) | (-105) Budget surplus (deficit) | 58 Trade (surplus) deficit |
| | = 0 | | | |

Fig. 4-3 (Sequence)

Financial Sector

Federal Reserve

Figure 4-4 Circular Flow of Dollar Payments
National income and product accounts model of U.S. macroeconomy

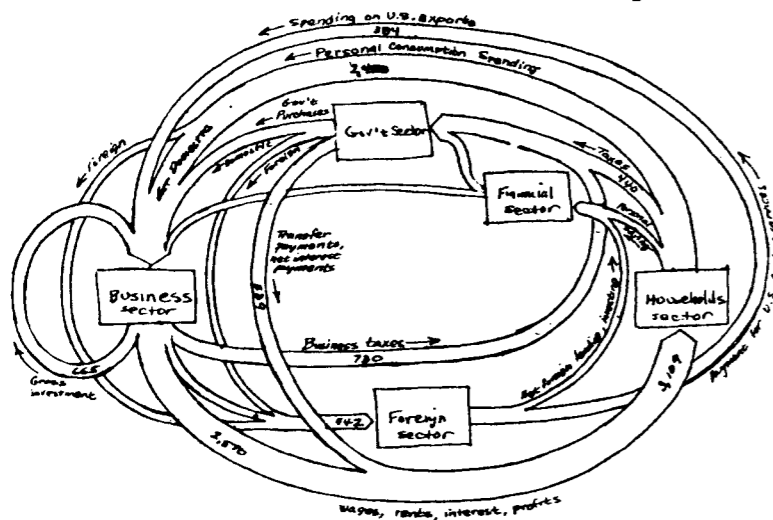


Fig 4-5(A) BUSINESS INVESTMENT AND THE FEDERAL DEFICIT
QUARTERLY 1950 - 1989:3
(BILLIONS OF \$2\$)

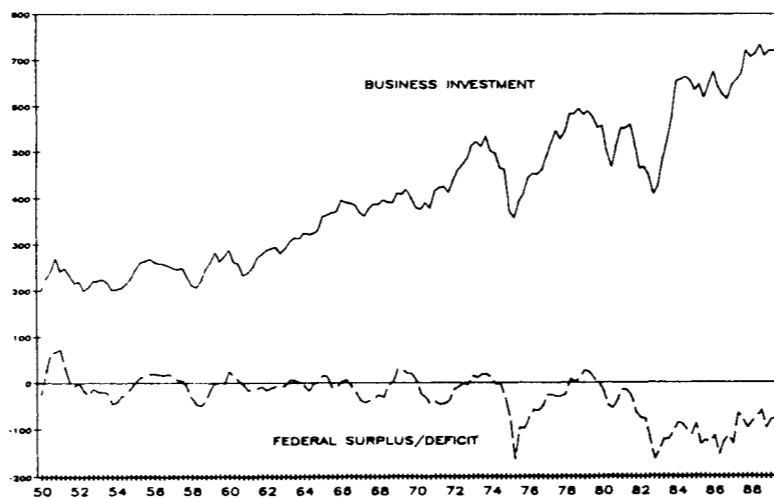
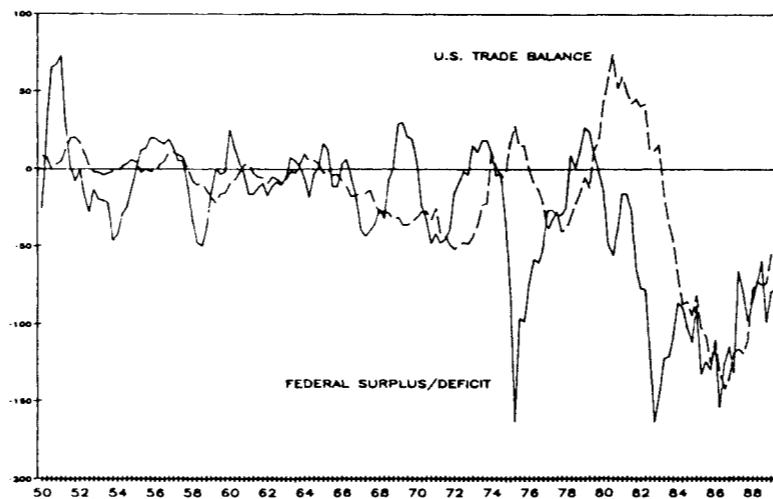


Fig 4-5(B) THE FEDERAL SURPLUS/DEFICIT AND THE U.S. TRADE BALANCE
QUARTERLY 1950 - 1989:3
(BILLIONS OF \$2\$)



6
Figure 4-6(A) - National Income Accounts and the Macroeconomy

| The Actors (macro sectors) | Households | Business | Government | Foreign |
|----------------------------|--------------------------|--------------------------------------|--------------------------------------|---------------------------------|
| 3. Net Financial flows | 164 Household savings | + (-)117 (Net business borrowing) | + (-)105 Budget surplus (deficit) | + 58 Trade (surplus) deficit |
| $= 0$ | | | | |

6(b)
Figure 4-6(B) - National Income Accounts and the Macroeconomy

| The Actors (macro sectors) | Households | Business | Government | Foreign |
|-----------------------------------|--------------------------|--------------------------------------|--------------------------------------|---------------------------------|
| 3. Net Financial flows | 164 Household savings | + (-)117 (Net business borrowing) | + (-)105 Budget surplus (deficit) | + 58 Trade (surplus) deficit |
| $= 0$ | | | | |
| $S - I + (T - G) + (Im - Ex) = 0$ | | | | |