



Fed Balance Sheet Shrinks by \$1.60 Trillion from Peak to \$7.36 Trillion, Hits Lowest Level Since December 2020

Description

The Federal Reserve has been slowly reducing its balance sheet through a process known as Quantitative Tightening (QT). In April, the balance sheet dropped by \$77 billion to \$7.36 trillion, the lowest since December 2020. Since the end of Quantitative Easing (QE) in April 2022, the Fed has shed \$1.60 trillion.

QT involves reducing the amount of Treasury securities and Mortgage-Backed Securities (MBS) on the balance sheet. So far, 38% of the Treasury securities and 27% of the MBS added during pandemic QE have been removed. The Fed has set caps for the runoff of these securities, with Treasury securities reduced to \$25 billion and MBS remaining at \$35 billion per month.

The goal is to gradually decrease the balance sheet without causing disruptions to the financial markets. As the Fed continues with QT, the balance sheet is expected to decline further. This process will impact bank liquidity facilities as well, such as the Discount Window and the Bank Term Funding Program.

Overall, the Fed's actions are aimed at maintaining stability in the financial system while unwinding the measures taken during the pandemic.

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Vocabulary List:

1. **Quantitative Tightening** // (noun): The process of reducing the size of a central bank's balance sheet by selling off assets.
2. **Balance Sheet** // (noun): A financial statement that summarizes a company's assets liabilities and shareholders' equity at a specific point in time.
3. **Treasury Securities** // (noun): Debt securities issued by the US Department of the Treasury to finance the national debt.
4. **Mortgage-Backed Securities** // (noun): Securities that represent an ownership interest in a pool of mortgage loans.
5. **Liquidity** // (noun): The ease with which an asset can be converted into cash without affecting its market price.
6. **Disruptions** // (noun): Disturbances or interruptions that impact the normal flow or operation of something.

Vocabulary quizzes

Multiple Choice (Select the Correct answer for each question.)

1. What term is used to describe a rapid increase in the price of securities or other assets?
Option: A. Inflation
Option: B. Rally
Option: C. Confidence
Option: D. Decline
2. What term refers to the Federal Reserve's reduction of its balance sheet and absorbing cash from the financial system?
Option: A. Quantitative Tightening (QT)
Option: B. Labor Market
Option: C. Buyback
Option: D. Infrastructure
3. What term describes the movement of funds from one financial asset or entity to another?
Option: A. Hawkish
Option: B. Outflow
Option: C. Inflow
Option: D. Forecast
4. What term denotes a positive outlook or belief that things will generally turn out well?
Option: A. Stability



- Option: B. Optimism
- Option: C. Quantitative Easing (QE)
- Option: D. Hawkish

5. What index represents the 100 companies listed on the London Stock Exchange with the highest market capitalization?

- Option: A. FTSE 100
- Option: B. Stoxx 600
- Option: C. Treasury Securities
- Option: D. Mortgage-Backed Securities (MBS)

6. What term refers to the ease with which an asset can be bought or sold in the market without affecting its price?

- Option: A. Unpredictable
- Option: B. Liquidity
- Option: C. Cautiously
- Option: D. Disruptions

7. Which financial instrument represents the debts of the U.S. government and is considered one of the safest investments?

- Option: A. Inflows
- Option: B. Treasury Securities
- Option: C. Decline
- Option: D. Outperformed

8. What economic term describes the increase in prices of goods and services over time?

- Option: A. Inflation
- Option: B. Labor Market
- Option: C. Buyback
- Option: D. Forecast

9. Which sector includes all those who are voluntarily seeking employment and job opportunities?

- Option: A. Quantitative Tightening (QT)
- Option: B. Labor Market
- Option: C. Buyback
- Option: D. Infrastructure

10. What term describes a continuous period of a particular kind of success or luck?

- Option: A. Stability
- Option: B. FTSE 100
- Option: C. Streak
- Option: D. Forecast



Gap-Fill (Fill in the blanks with the correct word from the vocabulary list.)

11. Investors who have high _____ in the market are more likely to invest in risky assets.
12. Economists use various models to _____ economic trends in the upcoming years.
13. A share _____ is a corporate action where a company buys back its own shares from the market.
14. Building new roads and bridges is an example of investing in _____ development.
15. Despite the market challenges the company _____ in its expansion plans.
16. A central bank is considered _____ if it signals an intent to raise interest rates.
17. Investors are now _____ watching for signs of economic slowdown.
18. Technological _____ have reshaped many industries in recent years.
19. The central bank provides liquidity _____ to stabilize financial markets during crises.
20. The tech sector _____ all other sectors in terms of stock performance last year.

Matching Sentences (Match each definition to the correct word from the vocabulary list.)

21. Foreign investments and capital are examples of _____ into a country.
22. During the financial crisis there was a significant _____ of funds from the banking sector.
23. The index includes stocks from 17 European countries providing a broad market view.
24. Central banks implement _____ to stimulate the economy by buying financial assets.
25. These financial products played a significant role in the 2008 financial crisis due to their default risks.
26. Economists analyze data to make a _____ about the future direction of the economy.
27. Economists aim to achieve price _____ to support sustainable economic growth.



28. Market reactions to political events can be highly leading to volatility.

29. Investors assess various factors before making investment in the market.

30. A market can be triggered by positive economic news or strong corporate earnings.

Answer

Multiple Choice: 1. B. Rally 2. A. Quantitative Tightening (QT) 3. B. Outflow 4. B. Optimism 5. A. FTSE 100
6. B. Liquidity 7. B. Treasury Securities 8. A. Inflation 9. B. Labor Market 10. C. Streak

Gap-Fill: 11. Confidence 12. Forecast 13. Buyback 14. Infrastructure 15. Persisted 16. Hawkish 17.
Cautiously 18. Disruptions 19. Facilities 20. Outperformed

Matching sentence: 1. Inflows 2. Outflow 3. Stoxx 600 4. Quantitative Easing (QE) 5. Mortgage-Backed
Securities (MBS) 6. Forecast 7. Stability 8. Unpredictable 9. Decisions 10. Rally

CATEGORY

1. Business - LEVEL2

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