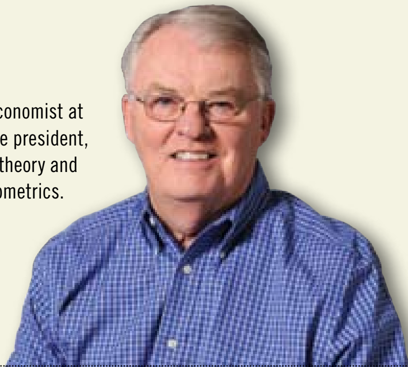
ASK AN ECONOMIST



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In response to recent financial market turmoil, the Federal Reserve has introduced an alphabet soup of programs (TAF, TSLF, PDCF, etc.). What are these, and how do they work?

Since August, the Fed has implemented a variety of programs to deal with this turmoil. Each program is intended to inject liquidity into a potential trouble spot in the market.

The Term Discount Window Program (TDWP) essentially extends the term of discount window loans from overnight to up to 90 days. Depository institutions that borrow under the TDWP or the conventional discount window pay the primary credit rate.

Under the Term Auction Facility (TAF), the Fed auctions off loans to depository institutions every other Thursday for a term of 28 days. The size of the auction is set (currently $75 billion), and depository institutions bid for the funds. The interest rate paid is the lowest rate that exhausts the funds (or the lowest rate proposed by any bidder if the total requests are smaller than the amount to be auctioned). Consequently, the rate can be higher or lower than the primary credit rate.

The Primary Dealer Credit Facility (PDCF) extends overnight borrowing from the Fed to primary dealers. (Currently, there are 20 dealers with whom the Fed trades government securities.) The loans are overnight but may be renewed daily for a period of six months or longer if conditions warrant. The interest rate charged is the primary credit rate. The collateral requirements under the PDCF are somewhat different from those used for regular discount borrowing.

The Term Securities Lending Facility (TSLF) established term swaps of securities between the Fed and primary dealers. Primary dealers are permitted to exchange various securities for U.S. Treasuries for a term of 28 days. The securities are auctioned weekly with the amount of the auction and the Treasuries available determined in advance of the auction. The rate is essentially the spread between the rate on Treasuries being auctioned and the rate on the pledged collateral presented by the primary dealers.

The TSLF differs from conventional open market operations (OMO) in that with OMO the Fed exchanges funds, i.e., deposits at the Fed, for securities from the dealers—it does not swap securities for securities. Moreover, the Fed accepts a wider range of securities under the TSLF than it accepts with OMO.

Finally, on March 7, 2008, the Fed announced the Single-Tranche OMO Program. Funds provided through this program are made available weekly for a term of 28 days—longer than the overnight to 14-day term of conventional OMO.

Submit your question in a letter to the editor. (See Page 2.)
One question will be answered by the appropriate economist in each issue.

FED FLASH POLL RESULTS

Here are the results of the poll that went with the April issue. The question stemmed from the article "Extra Credit: The Rise of Short-term Liabilities."

THIS ISSUE'S POLL QUESTION:

What should be the federal government's role in ethanol production and use?

1. Do whatever it takes—taxpayer subsidies, mandates, government ownership of plants, etc.
2. Force the oil companies to subsidize additional R&D spending on ethanol.
3. Lift tariffs on imports of ethanol to lower price for consumers.
4. Encourage innovation by subsidizing alternatives to corn-based ethanol.
5. Phase out all subsidies and other tax breaks. Let the markets take charge.

To vote, got to www.stlouisfed.org. Anyone can vote, but please do so only once. (This is not a scientific poll.)

ECONOMICS OF ETHANOL TO BE DISCUSSED AT PUBLIC FORUM

This daylong program on ethanol issues will take place Nov. 14 at Washington University in St. Louis. There is no cost to attend, but registration is required. (Go to http://wc.wustl.edu.) Participants can sign up for any one of the five major sessions or for all of the day's events.

The main topics and speakers are:

1. The U.S. ethanol industry: history and challenges. *Jeff Broin, chief executive officer of South Dakota-based POET, the largest ethanol producer in the world.*
2. The profitability of corn ethanol processing. *Paul Gallagher, department of economics, Iowa State University.*
3. The economic consequences of corn ethanol as a fuel source: environmental effects of production, energy balance with fossil fuels, effects on food prices, subsidy rate relative to oil/gas, and impact on farmer production decisions (e.g. cattle vs. corn). *Douglas Tiffany, department of applied economics, University of Minnesota.*
4. The impact of the ethanol boom on rural America. *Jason Henderson, Federal Reserve Bank of Kansas City—Omaha branch.*
5. The future of biofuel. *A panel discussion with Jerry Taylor of the Cato Institute; Rich Taylor, CEO of the National Corn Growers Association; and Nicholas Kalaitzandonakes, department of agricultural economics at the University of Missouri–Columbia.*

The hosts for this nontechnical conference are the Federal Reserve Bank of St. Louis; the Weidenbaum Center on the Economy, Government and Public Policy, which is part of the university; and the International Center for Advanced Renewable Energy and Sustainability (I-CARES), also at the university.