Monetary Policy:

The Federal Reserve's role in setting the federal funds target rate is to influence the cost of money and thereby affect the state of the economy. This in turn affects business investment decisions and consumer decisions on spending and saving. When the Fed raises the target rate, banks raise their lending rates, thereby raising the cost of borrowing and reducing the level of investment and consumption. When the Fed lowers the target rate, banks lower their lending rates, thereby lowering the cost of borrowing and increasing the level of investment and consumption. The Fed's rate setting is based on its assessment of the current state of the economy and its projection of future economic developments.