

Answer on Question #38050 – Economics – Macroeconomics

Assignment

What is the difference between the federal funds rate and the discount rate?

Solution

Federal funds rate is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The federal funds rate is generally only applicable to the most creditworthy institutions when they borrow and lend overnight funds to each other.

Discount rate is the interest rate charged to commercial banks and other depository institutions for loans received from the Federal Reserve Bank's discount window. The discount rate also refers to the interest rate used in discounted cash flow analysis to determine the present value of future cash flows.