The Federal Reserve System is the central bank of the United States. It was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system; over the years, its role in banking and the economy has expanded.

Today, the Federal Reserve's duties fall into four general areas:

1. Conducting the nation's monetary policy by influencing the money and credit conditions in the economy in pursuit of full employment and stable prices

2. Supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers (Federal Reserve Regulations)

3. Maintaining the stability of the financial system, and containing systemic risk that may arise in financial markets

4. Providing certain financial services to the U.S. government, to the public, to financial institutions, and to foreign official institutions, including playing a major role in operating the nation's payments system.

The current Federal Reserve Chairman is Janet Yellen who was sworn in February 3, 2014.
Generally, inflation will occur if the money supply increases, ceteris paribus. Deflation will generally occur if the money supply is decreased, ceteris paribus. Inflation is an increase in the general price level of the economy. The “general price level” is an expression representing the "average" level of prices in the economy. Deflation would be a decrease in the general price level of the economy.

Most people think of inflation as being something bad. If your income does not increase at the same rate as inflation, then your purchasing power does decrease or erode away. If your income increases at the same rate as inflation, then your purchasing power remains unchanged; you are no worse off or better off. If your income increases at a rate greater than inflation, then your purchasing power increases, and you are better off. Real estate has often been termed a “hedge against inflation.” Real estate values usually increase at or above the rate of inflation.

Re-read Chapter 1 of “Everyday Economics” by Dr. Mike Walden. Later, we will address inflation in more depth. Right now, I just want you to have a “feel” for the concept.
Some folks still think that the U.S. dollar is backed by gold. It is not. What do I mean when I refer to the dollar being back by gold? Well years ago, the U.S. treasury could only print as much money as the U.S. treasury had in gold reserves. For example, if the U.S. treasury had $1 billion dollars worth of gold in reserves, then only $1 billion dollars of paper money and coinage could be printed or stamped out. The only way to increase the money supply under this system was to increase gold reserves. If gold reserves decreased due to payments in gold for imported commodities, then the money supply had to be decreased.

Up until 1935, U.S. citizens could redeem their dollars for gold at the rate of $20.67 per ounce. Gold prices were essentially fixed (held constant) by the government. From 1935 to 1968, only foreign countries could redeem dollars in their possession for U.S. gold at the rate of $35.00 per ounce.
From 1968 to 1971, only selective foreign redemption was allowed. In 1971, the U.S. “Gold Window” closed. The U.S. dollar is no longer directly tied to gold or any other commodity, and gold is freely traded in world markets. Any time there appears to be a threat to world political stability, gold prices usually increase.
If the dollar is not “backed” by gold or anything else, how does money have value? The dollar is only “backed” by faith. The fact that most people want money, and that there are not enough dollars floating around out there such that everybody can have all the dollars they want. These two elements are what gives money value. If we lose faith in the value of our money, then it will become worthless. Money is simply an efficient “medium of exchange”. Rather than being paid in commodities for work performed, and then trading those commodities for other goods and services you desire (bartering), you are paid money that you use to purchase the goods and services you desire. Think about it, it is much more efficient to go to Walmart with a pocket of dollar bills than it is to go to Walmart with a truck load of chickens and then try to swap chickens for the items you need. Then Walmart has got to swap your chickens for the goods that they purchase to stock the store. This can become very time consuming and costly. Money is simply more efficient.
What if you stuff your money in a mattress?

What does it cost you?

- **Zero Inflation?**
- **10% Inflation?**

**Known as the opportunity cost of holding money!**

What if you take your hard earned money and stuff it in your mattress at home, does it cost you anything to do that? If the inflation rate was zero, what would the cost of stuffing your money in a mattress be?

Well, if you put your money in a bank, what would a bank pay you for depositing your money with the bank? Interest. Therefore, stuffing your money in a mattress costs you the interest you could have earned had you put your money in the bank.

What if the inflation rate is 10 percent per year, what would it cost you to stuff your money in a mattress? Well, you are going to lose purchasing power. Your money will purchase less one year from now than it would today. Prices of commodities will increase due to inflation. What cost $100 today, will cost $110 a year from now due to 10 percent inflation. Therefore, it will take more of your mattress money to purchase items one year from now than it would if you purchased those items today.

If you deposit your money in the bank, the interest you receive will generally compensate you for inflation as well.

The cost of holding “mattress money” is known as the “opportunity cost of holding money.”
Interest

| The price you pay for using someone else's money (accounting cost or explicit cost) |
| OR |
| holding your own money as cash. |
| (opportunity cost or implicit cost) |

Interest is really nothing more than the PRICE you pay for using someone else’s money. From this perspective, the interest cost would be considered an accounting cost or an explicit cost.

Interest can also be the cost you incur from holding your own money as cash rather than depositing the funds in a financial institution. From this perspective, the interest cost is considered an opportunity cost. Opportunity cost is basically what you sacrifice (give up) to choose one alternative over another. We will discuss opportunity cost in much greater detail later in the course.
There are basically three different types of interest rates. Nominal interest rates, or market interest rates, are the interest rates that you actually observe in the market place for lending money to, or borrowing money from a lending institution or individual.

When your banker quotes you 8.25% for an automobile loan, this is the nominal interest you are charged for borrowing money from this lender. When a banker quotes you 4.50% for a 24 month certificate of deposit (CD), this is the nominal interest rate you will receive for lending your money to the bank. The spread between the nominal interest rate the bank pays you for lending them money, and the nominal interest rate they charge people to borrow money can be considered the bank’s gross profit margin. Remember, the bank has costs associated with borrowing and lending money as well; so that spread is not all cream! A bank must also consider the risk that it is taking lending money to folks. There are some people that will not be able to pay their loans back, and the bank can incur losses on that transaction.

The other two interest rates, the real rate, and the risk-free rate will be explained very shortly.

---

### Interest

- **Nominal interest rates (market rates)**
- **Real interest rates**
  - A return net of inflation and risk premium
- **Risk-Free interest rates**
  - Government treasury securities, no risk premium.
The nominal interest rate consists of three components or parameters. The real interest rate, compensation for inflation, and the default risk premium. These three components are added together to determine the nominal interest rate.
The real interest rate is the price of money, net of inflation and risk, that people are willing to accept for deferring present consumption until some future time period.

- $1 in your hand right now is worth more than the promise (without risk) of $1 in your hand a year from now.
- Even with 0 inflation.

The real interest rate is the price of money, net of inflation and risk, that people are willing to accept for deferring present consumption until some future time period. Or, think of it this way: How much would I have to pay you, net of inflation and risk, not to spend some of your money today, but defer use of that money for one year? For example, a $1 in your hand right now is worth more than the promise (without risk) of a $1 in your hand a year from now. This is true even with zero inflation.

People generally prefer to have something now, rather than wait and have it later. What would I have to pay you to wait and have something later rather than now?
Don’t believe it. Folks can generally save a little money on many goods by ordering items through the mail and have the item delivered to their front door. Why do people drive (cost) to Walmart, wander around trying to find what they are looking for (cost), stand in a long, slow line waiting (cost) to purchase an item, then drive all the way back home (cost)?

Why do we do this? Because we want it NOW!!! We don’t want to wait three or four days for it to be delivered to our door. We want it NOW, and we are willing to incur the additional cost (transaction cost) associated with having it NOW.

Admittedly, there are other reasons we go to the store and “shop” around. Some of us like to see, touch and try a product before we purchase it. Some of us just like to wander around and look at the many products we are blessed to have at our finger tips. I am not much of a “go to the store shopper.” I prefer to shop for many things with mail order catalogs, dial 1-800-xxx-yyyy, or order over the internet and have it delivered to the door. Are there any transaction costs associated with this method of shopping? Sure. What are they?
If $1 in your hand right now has the same value to you as $1.05 a year from now, guaranteed, with zero inflation, then the real rate of interest that you would accept to defer consumption today for one year would be 5 percent.

Think of the real rate of interest as what someone would have to pay you guaranteed, with no inflation, to not use your dollar today, but to wait one year to use your dollar to buy something. Does that make sense to you?

If you are not spending your dollars on goods and services today, then you are saving your dollars for later consumption. What real rate of interest will convince you not to spend your money today, but save it for at least one year?
If inflation was expected to be 10% from now until one year from now, what market interest rate would you demand to have, to get your 5% real rate of interest? Assume no risk.

Answer: 15%.

Now, if you expected inflation to be 10 percent from today until one year from now, what nominal (market) interest rate would you demand in order to get the 5 percent real rate of interest that you want, assuming there is no risk associated with the transaction?

If you naturally responded 15 percent, we are making progress!!

If you did not quickly conclude 15 percent, remember that inflation erodes the purchasing power of your money over time. To get the 5% real rate of interest that you want, someone would have to be willing to pay you an extra 10 percent to compensate for inflation. You will need to get at least a 15 percent nominal rate because inflation will eat up 10 percent of the value of your money over the year. After inflation, the value of your money would have only increased 5 percent over the year, the real rate of interest in this example.

10% inflation + 5% real interest rate = 15% interest rate required with no risk.

$1.00 today * (1+ interest rate required) =
$1.00 today * 1.15 = $1.15 one year from today, $.10 of this lost to inflation.

10% inflation + 5% real interest rate = 15% interest rate required with no risk.
If you think there is some risk involved in the transaction, then you would naturally want to be compensated for taking that risk. This is where the risk premium enters the interest rate scenario. The greater the risk that you perceive, the greater the risk premium you will want.

The interest rate that I may receive from a bank may be less than the interest rate you might receive. I am 40 “something” years old, married, have three children that are grown and are on their own. I almost fully own my home. I have a graduate degree and have been employed as a teacher at N.C. State University since 1981. My credit history is spotless.

You may be 18 or 19 years old, single, in college, renting a dorm room or apartment, no children. You really have not had much time to develop a credit history so you do not have much of a track record by which to judge your financial responsibility. Basically, you could just pull up stakes and disappear with the bank’s money if you had a mind to, and it would be very expensive to track you down. You lack ties to the community.

Who would you charge a higher risk premium to? Who may be charged a higher risk premium by a lending institution?

Lenders evaluate the length and quality of an individual’s credit history, the purpose of the loan, the amount of collateral available and it’s liquidity, as well as an individual’s capacity to repay the loan.
The interest rate on government securities is known as the “risk-free rate” and is equal to the real rate of interest plus the expected inflation rate over the life of the government security. Government securities consist of treasury bonds, treasury notes, and treasury bills. Treasury bills mature in one year or less, treasury notes mature in two to ten years, and treasury bonds mature in over 10 years.

Interest Rates on Govt. Securities:

Known as the "Risk-free Rate"

= Real rate + $E$(inflation over life of security)
When inflation decreases, risk-free interest rates decrease, and nominal interest rates decrease as well. When inflation increases, interest rates will increase as well to compensate lenders for the increased loss in future purchasing power.
The prime interest rate is the rate charged by commercial banks for short-term loans to corporations or individuals whose credit standing is so high that little risk to the lender is involved. Only a small percentage of U.S. corporations qualify for the prime rate, which tends to be the lowest going interest rate and thus serves as a basis for other, higher risk loans.

The above definition of the prime interest rate is from:

<table>
<thead>
<tr>
<th>Year</th>
<th>Prime Rate</th>
<th>Prime Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>18.87%</td>
<td>Aug., 1998</td>
</tr>
<tr>
<td>Jan., 1994</td>
<td>6.00%</td>
<td>Jan., 1999</td>
</tr>
<tr>
<td>Sept., 1994</td>
<td>7.75%</td>
<td>Sept., 1999</td>
</tr>
<tr>
<td>Jan., 1995</td>
<td>8.50%</td>
<td>Feb., 2000</td>
</tr>
<tr>
<td>Sept., 1995</td>
<td>8.75%</td>
<td>Aug., 2000</td>
</tr>
<tr>
<td>Sept., 1997</td>
<td>8.50%</td>
<td>May, 2008</td>
</tr>
<tr>
<td>Jan., 1998</td>
<td>8.50%</td>
<td></td>
</tr>
</tbody>
</table>

□ Given to the most solid businesses and individuals!
We can estimate the risk premium charged by a bank for a three year automobile loan on a new vehicle by comparing the U.S. Treasury Note rate for 3 year notes to the rate charged on auto loans by the bank. In August of 1993, the risk premium being charged by Nations Bank (Bank of America today) on 3 year auto loans for new vehicles was around 4.52%. We simply took the difference between the treasury bill rate, and the auto loan rate to determine the risk premium.

In August of 1993, the risk premium was relatively high. The economy was recovering from the recession of 1991, and bankruptcy filings were at record levels.
By September of 1996, the risk premium charged by Nations Bank (Bank of America today) for 3 year auto loans on new vehicles had decreased to 3.83%. This decrease in the risk premium for these loans was probably due to the fact that the economy was humming along rather nicely without any fears of inflation. Unemployment rates were continuing to trend down, bankruptcy filings were not nearly as worrisome, and the bank perceived less overall risk in lending money.
Bank of America’s rate on a 3 year new car loan is higher relative to some other financial institutions in North Carolina. On this same date, First Union was offering a rate of 9.25%, Wachovia 9.50%, and the state average rate for this type of loan was 10.15%.

All financial institution interest rates used for these examples were taken from the internet version of the Wall Street Journal’s Banx Quote Banking Center on the dates indicated. The three year treasury note rates were taken from the Wall Street Journal’s internet edition, credit markets, key rates. The three year treasury note rates are yields adjusted for constant maturity on the dates indicated.
More Recent Snap Shot

- May 15, 2008

US Treasury 3 yr. Note rate = 2.78%

36 mo. New Car, Bank of America = 10.25%

risk premium = 7.47%
The Federal Reserve can increase or decrease the nation’s money supply in order to change the level of output and prices. The Federal Reserve Act lays out the goals of monetary policy. It specifies that, in conducting monetary policy, the Federal Reserve System and the Federal Open Market Committee should seek “to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”
The Federal Reserve basically uses three tools to affect the supply of money available for the economy. Open-market operations are the most subtle of the three, and consist of the buying and selling of U.S. treasury securities to “gently” increase or decrease the money supply in small increments over time.

The discount rate is the interest rate banks are charged when they borrow from the Federal Reserve. The discount rate can be altered by the Federal Reserve either to encourage or discourage borrowing from financial institutions. A change in the discount rate has a more pronounced affect on the money supply, and is often used to send a clear message to the financial community regarding the Federal Reserve’s intentions to increase or decrease the money supply.

The U.S. practices what is known as “fractional reserve banking.” The reserve requirement is the percentage of some deposits that banks must keep as vault cash, or on account with the Federal Reserve at all times. If you deposit $100 into your checking account, your bank must hold a certain percentage of that deposit in reserve. The rest of your deposit may be used by the bank to make a loan for example.
Open market operations by the Federal Reserve involve the buying and selling of treasury securities. A purchase by the Fed of treasury securities adds to the money supply. A sale of treasury securities reduces the money supply.

When the Fed buys securities from any seller, it pays by issuing a check on itself. When the seller of the security deposits the Federal Reserve check in his/her bank account, the bank presents the check to the Fed for payment. The Fed honors the check by increasing the reserve account of the seller’s bank at the Federal Reserve Bank. The reserves of the seller’s bank increases, allowing the seller’s bank to make additional loans if it so chooses.

Just the opposite occurs when the Fed sells treasury securities. The payment from the buyer reduces the reserve account of the buyer’s bank at the Federal Reserve Bank. The reserve’s of the buyer’s bank decreases, reducing the future loans the buyer’s bank is able to make.

Treasury securities come in basically three “flavors.” Treasury bonds have a life of over 10 years. Treasury notes have a life from 2 to 10 years, and Treasury bills have a life of one year or less. Treasury bills are the instrument primarily used by the Fed to manipulate the money supply.

Open Market Operations are a very powerful monetary policy tool that can be used with subtlety.

Open Market Operations

- When the Federal Reserve sells more treasury securities than it buys:
  Money Supply Decreases

- When the Federal Reserve buys more treasury securities than it sells:
  Money Supply Increases
When a bank needs more money to carry on its day to day business activities, the bank asks to borrow money from the Fed’s “discount window.” When the Fed makes the loan, it basically creates new money and pumps it into the economic system. The interest rate the Fed charges banks at the discount window is called the “discount rate.”

If the discount rate is set high, banks will be discouraged from borrowing from the Fed. If the discount rate is set low, banks will want to borrow more money from the Fed.

The discount rate is not really that powerful of a monetary policy tool, but is used more to announce a monetary policy direction by the Fed.
All depository institutions—commercial banks, saving banks, savings and loan associations, and credit unions—must retain a percentage of certain types of deposits to be held as reserves. The reserve requirements are set by the Federal Reserve under the Depository Institutions Deregulation and Monetary Control Act of 1980. Since the early 1990s, reserve requirements have been applied only to transaction deposits (basically, interest-bearing and non-interest-bearing checking accounts). The current reserve requirement is 10 percent on net transaction accounts in excess of $44.3 million, 3 percent on net transaction accounts of $44.3 million or less (as of 12/30/99, http://woodrow.mpls.frb.fed.us/info/policy/res-req.html). The reserve requirement was reduced from 12 percent to 10 percent April, 1992. Required reserves are a fraction of such deposits; the fraction—the required reserve ratio—is set by the Board of Governors within limits prescribed by law. Thus, total required reserves expand or contract with the level of transaction deposits and with the required reserve ratio set by the Board; in practice, however, the required reserve ratio has been adjusted only infrequently. Depository institutions hold required reserves in one of two forms: vault cash (cash on hand at the bank) or, more important for monetary policy, required reserve balances in accounts with the Reserve Bank for their Federal Reserve District.

The reserve requirement is probably the most powerful monetary policy tool and is seldom changed because of the major impact it has on the supply of money.

Take A Look at the Following:

- Implementation of Monetary Policy

http://www.federalreserve.gov/pf/pf.htm

Please read Chapter 3: The Implementation of Monetary Policy.

Feel free to read the entire publication if you wish.
Increasing the money supply will result in a decrease in interest rates in the short run, but if the increase in the money supply stimulates inflation, interest rates may increase in the long run. If we increase the money supply too much, we will decrease the value of money.
As the value of money decreases over time, it takes more dollars to buy the same goods and services resulting in inflation.
Decreasing the money supply will result in a increase in interest rates in the short run, but if the decrease in the money supply stimulates deflation; interest rates may decrease in the long run. If we decrease the money supply too much, we will increase the value of money.
As the value of money increases over time, it takes less dollars to buy the same goods and services resulting in deflation.
Discretionary Income \( (I_{DIS}) \)

\[ = (I_D - \text{ Basic Housing bills, Basic Utility bills, Basic Food Bills, Basic transportation bills, Basic clothing, etc.}) \]

(Not payments on credit cards!)

Money you have to spend or save at your discretion!

Discretionary income is disposable income less essential purchases for food, clothing, shelter, and transportation. Basically it is the money you have after paying your family living expenditures to either save or spend at your discretion, or perhaps the family’s discretion. Payments on credit card bills for vacations, and consumption other than living expenditures are paid for out of discretionary income. Payments on credit cards are most often re-payments of future discretionary income.
Using our Consumption-Production model again, we can evaluate the affects of monetary policy on the economy. When the economy is humming along rather nicely with economic growth at or near the sustainable level (~2.5% to 3.5% real GDP), relatively low unemployment, and production at or near capacity; increasing the money supply may have the following affects:

1. A decrease in short-term interest rates in the short run
2. An increase in consumption due to higher discretionary incomes and less expensive credit
3. A reduction in inventories due to the stimulation of consumption relative to production in the short run
4. Managers respond by increasing prices to bring inventories back to their normal levels since they are already producing at or near capacity.
5. In the long-run, long-term interest rates may start increasing in response to higher inflation.
Using our Consumption-Production model again, we can evaluate the affects of monetary policy on the economy. When the economy is weak with economic growth less than the sustainable level (~2.5% GDP), relatively high unemployment, and production below capacity; increasing the money supply will stimulate the economy with the following possible affects:

1. A decrease in short-term interest rates in the short run
2. An increase in consumption due to higher discretionary incomes and less expensive credit
3. A reduction in inventories due to the stimulation of consumption relative to production in the short run
4. Since production has been below capacity, managers may respond by calling back unemployed workers to increase production and bring inventories back to their normal levels.
5. The economy is returned to reasonable health with stable interest rates and prices.

During the recession of 1990-91, the Fed began increasing the money supply and lowering interest rates to stimulate the economy. At first, not much happened. Why do you think lower interest rates did not help the economy very much in the short-run during this historical time period?
Well, consumers had taken on quite a bit of debt during the 1980’s and many were pretty well max’ed out. Even if interest rates went to .5%, people are not going to borrow more money if they have already reached their credit limits. Folks who had variable rate loans observed their discretionary incomes increase as their monthly payments fell with lower interest rates, but many of those folks used this additional discretionary income to reduce their current debt loads. Folks with fixed rate mortgages on their homes scrambled to re-finance their homes with the lowest home mortgage rates since the 1960’s, but this took time. Fixed rate mortgage holders did not realized their increased discretionary incomes until the re-financing process was completed.

Folks that may have had little debt were fearful of loosing their jobs (employment insecurity). Every time you picked up a newspaper you were reading about more layoffs (down-sizing) from companies that people normally did not associated with layoffs. When you think you might lose your job tomorrow, you do not go out and take on new debt or spend your money without careful consideration.

Eventually, the lower rates took hold, consumers made adjustments, and the economy began to turn around during mid-1991; and has continued that expansion to date.
If the economy is humming along rather nicely with economic growth at or near the sustainable level (~2.5% to 3.5% real GDP), relatively low unemployment, and production at or near capacity; decreasing the money supply may have the following affects:

1. An increase in short-term interest rates in the short run
2. A decrease in consumption due to lower discretionary incomes and more expensive credit
3. An increase in inventories due to the dampening of consumption relative to production in the short run
4. Managers respond by decreasing production to bring inventories back to their normal levels since they were already producing at or near capacity.
5. In the long-run, interest rates will remain fairly stable unless the economy is thrown into a recession. Then prices may begin to fall resulting in some deflation and lower long-term interest rates in the long run.

Decreasing the money supply to increase interest rates in the short run would be rational if the economy were to begin over heating with real growth rates in excess of 2.5% to 3.5%, and signs of ensuing inflation. The higher interest rates would be used to “cool” the economy down.
If the economy were experiencing low growth and high unemployment, decreasing the money supply to increase interest rates in the short run would probably not be the wisest monetary policy action to take. Such action by the Fed would in all probability throw the economy into a recession. Let’s look at what happens anyway.

1. An increase in short-term interest rates in the short run
2. An decrease in consumption due to lower discretionary incomes and more expensive credit
3. An increase in inventories due to the dampening of consumption relative to production in the short run
4. Managers respond by decreasing prices to bring inventories back to their normal levels since they were already producing below capacity.
5. In the long-run, long-term interest rates may decrease as the economy is thrown into a recession and due to the deflation that may occur.
As the returns to investing in the stock market continue to accrue, people begin pulling their money from relatively low interest savings vehicles and putting that money into the higher risk stock market to earn a higher return. This steady stream of money into investments such as mutual funds fuels the market even higher.

Resources tend to flow where they will earn their highest return subject to the relative risk of the investment, business enterprise, employment opportunity, etc. The stock market is riskier than a certificate of deposit, but as the stock market continues to make gains, money is lured into the market due to the higher potential return. Some people believe the increased risk they are taking is worth it. The safest way to invest in the stock market is to invest for the long term with funds that you will not need immediate access to in the future. Getting into the stock market to try and make a quick fortune with money that you cannot afford to lose is a very dangerous financial proposition.

On April 17, 1991 the Dow Jones Industrial Average (DJIA) was at 3000. On January 14, 2000, the DJIA hit a record 11,723. That is a 290.77% gain over this time period. That is an average gain of 33.23% per year over 8.75 years. So, what does all this mean. It means that if you had purchased $10,000 worth of stock in the 30 companies that comprise the DJIA on April 17, 1991, on January 14, 2000 your initial $10,000 investment would have been worth $39,077. Returns like the ones illustrated here “lures” a lot of money out of bank accounts and into the stock market. For more information on the DJIA, go to: http://www.dowjones.com/corp/index_average.html
Low interest rates are not a welcome thing to all people. Older, retired citizens often have their money in less risky investments and depend on market interest rates for some portion of their retirement incomes. Low interest rates mean less income to these senior individuals. The stock market is often perceived as too risky for these individuals to invest in at this particular point in their lives. Senior citizens typically do not have the remaining life span and associated earning potential to recover from a major downturn in stocks. As a young person, if you invest in the stock market, and the market takes a nose dive, you have years of earning potential to make up the loss. A senior citizen does not have years of earning potential to recover from a large loss in the stock market.

Young people like to see low interest rates. They are typically buying homes, automobiles, furniture, etc. Young people must often use credit to acquire many of the items they want because their incomes are not sufficiently high enough to meet their immediate desires. If you are a net debtor (owe money), you want to see low interest rates. If you do not have much debt and are a net lender of funds to financial institutions, you naturally want to see high interest rates to enhance your returns.