

Fed FAQ: Why Do Interest Rates Matter?

Interest rates matter in lots of different ways in affecting the economy. One way that interest rates matter is they influence borrowing costs. If interest rates are lower, that will encourage more people to take out a mortgage and purchase a house, purchase an automobile, or take out a loan for home improvement, those kinds of things. If interest rates are higher, that will tend to restrain businesses, for example, from investing in new expansion -- purchasing equipment, updating their plants, hiring more workers. The job of the Fed is to try to set interest rates in a way that will help set the backdrop for promoting the conditions that will get us to the jobs that the Congress has given us -- namely, maximum sustainable employment and low and stable inflation.