How will the Fed maintain price stability?

- Avoid deflation
  The recession has left enormous slack in the economy, causing growth in wages and prices to slow. Many workers are experiencing wage freezes or cuts, and businesses have a hard time raising prices in such a difficult economic environment. In the near term, the chief concern about inflation is that it could get too low or even go negative, that is, turn into deflation. Extended deflation could lead to a destructive spiral in which expectations of falling prices reduce spending, investment, credit, and employment. The Federal Reserve's aggressive monetary policy has been aimed at promoting economic growth and putting a floor on how low inflation will go, thereby avoiding this downward spiral. The risk of deflation has receded as the economy has stabilized. But the inflation rate has been running below the level that Federal Reserve policymakers have indicated are desirable for the long run.

References:
Monetary Policy Report to the Congress, Federal Reserve Board of Governors, March 1, 2011.
Commodity Prices, the Economic Outlook, and Monetary Policy, speech by by Janet L. Yellen, Vice Chair, Board of Governors, at the Economic Club of New York, New York, New York, April 11, 2011.

- Moderate money supply growth
  With a weak economy and falling inflation, the Federal Reserve has adopted aggressive policies to boost demand, production, and employment. These policy actions have caused the sum of cash and bank reserves held at Federal Reserve Banks—known as the monetary base—to more than double since mid-2008. In normal times, such growth in the monetary base might ignite inflation. That's because ordinarily an increase in the monetary base causes the money supply also to grow as banks expand lending. Historically, periods of rapid sustained growth in the money supply have often been followed by high rates of inflation as too much money chases too few goods and services. But, in the current crisis, this link—referred to as the "money multiplier"—has been broken. Instead of stepping up lending, banks have hoarded reserves to keep their risk exposure low. As a result, the money supply has grown at a moderate pace, even though the monetary base has shot up.

References:
Monetary Policy Report to the Congress, Federal Reserve Board of Governors, March 1, 2011.

- Remove accommodation when appropriate
  The extraordinarily low interest rates prevailing today will not be appropriate when the economy regains its health. At some point, the Federal Reserve will need to raise interest rates to avoid overheating the economy and stoking inflationary pressures. It is committed to doing so. Usually in recoveries, winding down Federal Reserve stimulus simply means raising short-term interest rates. But this recovery is different because the Federal Reserve adopted unconventional programs to boost the economy, such as buying long-term mortgage-backed securities and U.S. Treasury securities. The Federal Reserve has a variety of tools it can use to raise interest rates and tighten financial conditions when the time is appropriate. Among other options, the Federal Reserve can pay banks a higher interest rate on their reserve balances and sell portions of its long-term securities holdings.

References:
The Federal Reserve's Policy Actions during the Financial Crisis and Lessons for the Future, speech by Donald L. Kohn, former Vice Chair, Federal Reserve Board of Governors, at the Carleton University, Ottawa, Canada, May 13, 2010.