The Federal Reserve System

Economics Chapter 10 section 3

Review Money Supply, Credit, Interest Rates

- What are the components of the money supply (M1)?
  - **currency (coins and paper money),**
  - **checking accounts, and**
  - **traveler's checks.**
- What are the 3 C's of Credit?
  - **Character** : reputation, credit history, job stability
  - **Capacity**: Are you able to repay the debt based on your income?
  - **Collateral**: Property used to secure the loan
- What is an interest rate? Who earns interest? Who pays it?
  - amount the borrower has to pay in order to take out a loan.
  - Lender
  - borrower

Review Money Supply, Credit, Interest Rates

- A decrease in interest rates will   increase or   decrease (circle one)   overall demand.

- An increase in interest rates will   increase or decrease (circle one)   economic activity.

- An increase in interest rates will   increase   or decrease (circle one)   the likelihood of inflation.

- A decrease in interest rates will   increase   or decrease (circle one)   the likelihood of inflation.

- How could a nation promote business investment into capital and household consumption?

Federal Reserve System

- In 1913, Congress passed the Federal Reserve Act.
- This act established the **Federal Reserve System**, the **central bank of the United States**.
  - also known as **"the Fed."**
- Main goal
  - **control the money supply - main goal**
  - Also maximize employment and stabilize prices

2 Principal Components of the FED

1) Board of Governors
- Seven Members,14 Year Terms
- Appointed by the President, Approved by the Senate
- One of the members is the **"Chairperson"**
  - **Currently is Janet Yellen**
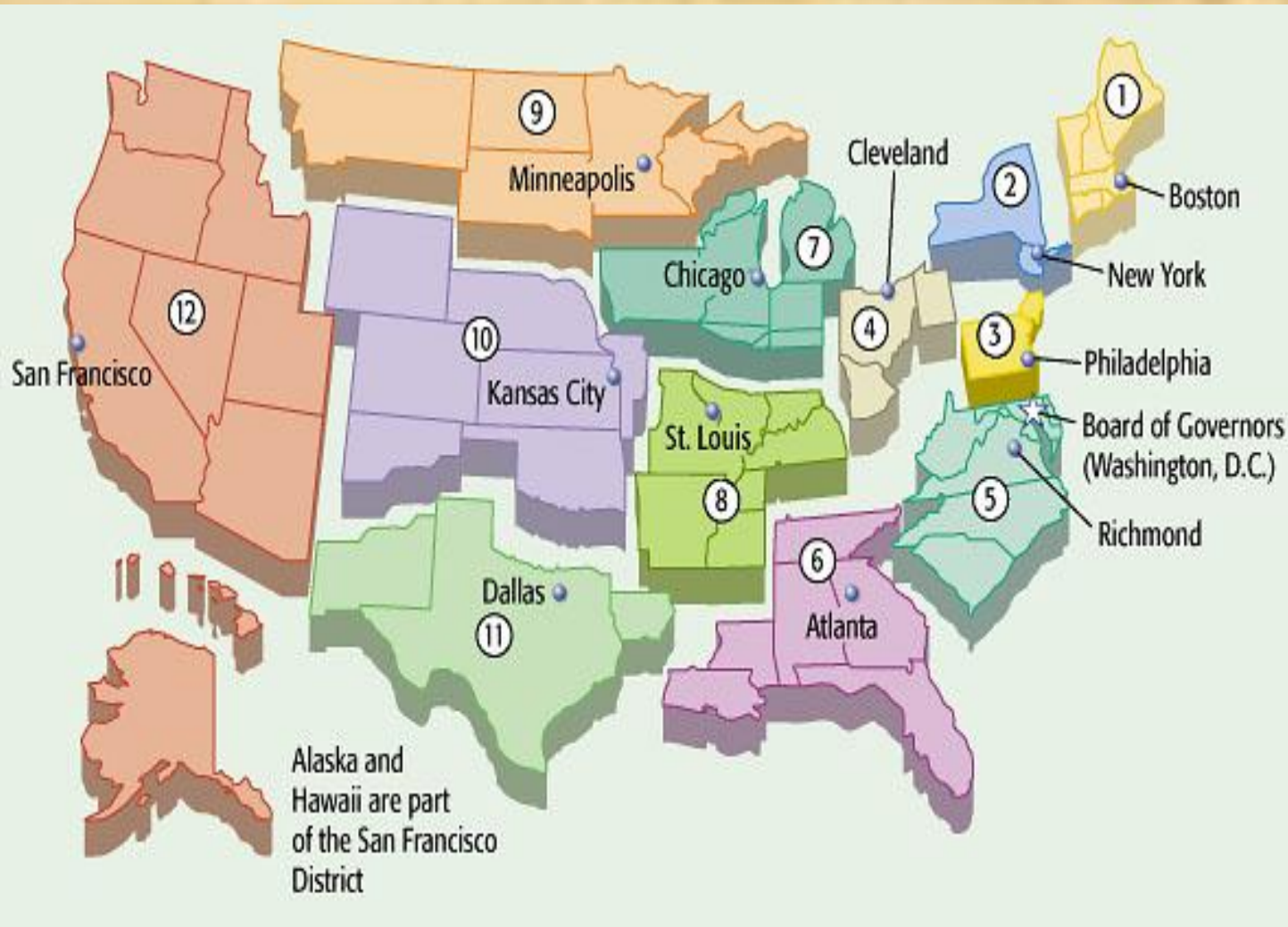 - 4 year term

2) 12 Federal Reserve District Banks

* Additional component: The FOMC (Federal Open Market Committee)
- Open Market Operations
  - Buying and selling of government securities
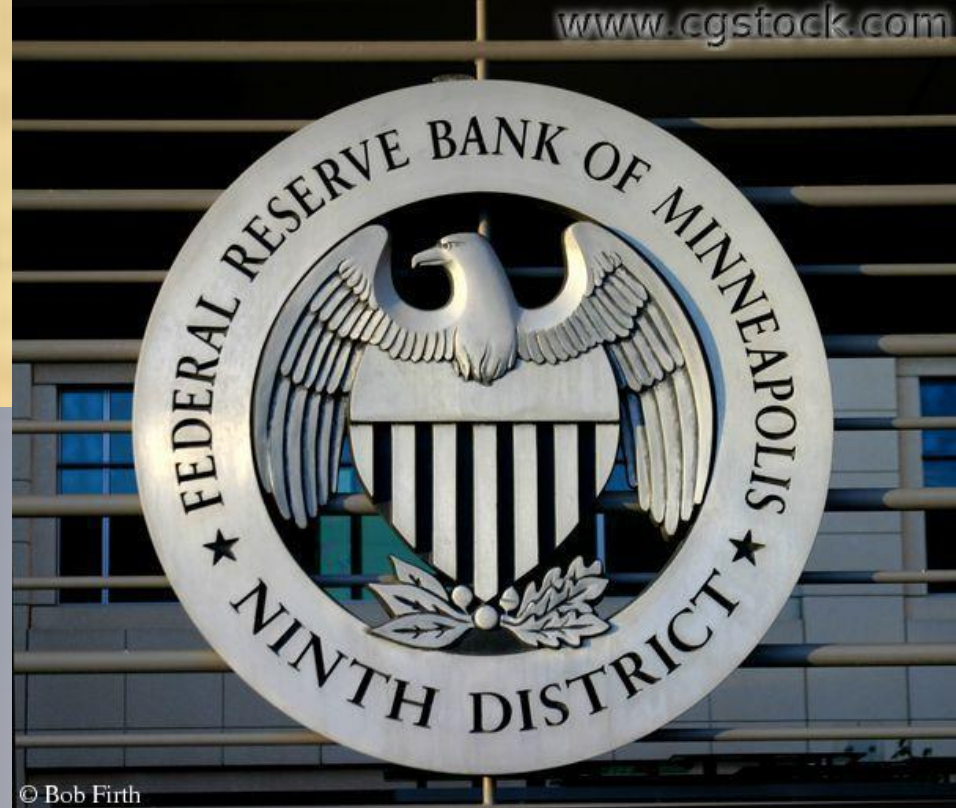
What is the FED?

- Video: FED Head

Federal Reserve Districts and Federal Reserve Bank Locations

Which District do we belong to?!

On Hennipen Ave.   Overlooks the Mississippi River
Warehouse District – Near Target Field (Twins)

Each one of the 12 different Federal Reserve System districts hand out money

Bills are produced by the Bureau of Engraving, the same government agency that prints stamps

All currency is made in Washington D.C. and Fort Worth, TX and is then sent to the different branches

One of the 6 functions of the Federal Reserve is to supply the country with paper bills, also known as Federal Reserve Notes

Functions of the Fed

1) Control the money supply

2) Supply the economy with paper money

3) Hold bank reserves

4) Provide for check-clearing services

5) Supervise the other member bank

6) Serve as lender of last resort

1) Control the Money Supply

- More Detail in 10.4
  - Reserve Requirement
  - How much money the banks need to keep "in house"
  - Changing the Federal Funds Rate
    - What the fed just did in order to try and encourage spending

2) Supply the economy with paper money

- Federal Reserve Notes
- Bureau of Engraving and Printing in Washington D.C.
- Issued to the District Banks
  - Meet the public demand
    - Banks
    - Public

3) Hold Bank Reserves

- Every commercial bank in a district has to have a reserve account at the district bank headquarters
  - Much like a checking account but for a bank
- More details in 10.4
  - It helps the Fed control the money supply
  - Keeps banks safer by being the bank for banks

4) Check Clearing Process

- Process by which funds change hands when checks are written
- Counterfeiting issues

5) Supervise Member Banks

- Check banks records whenever they want

- Do not need to give warning

- Check the loans that were given out

- Pressure or put penalties on banks not following established banking standards

6) Serve as lender of last resort

- Help out banks that are struggling from cash management issues
- When no one else will help a bank out, the Fed can step in if wants to
- Ex. Great Depression

Wrap-up / Exit Slip

- The FED and Money
  - Video: About Money

- Exit Slip
  - Explain the Federal Reserve System
  - State 3 functions of the FED