

Chapter Objectives

- The organization of the Federal Reserve System
- Reserve requirements
- The deposit expansion multiplier
- The tools of monetary policy
- The Fed's effectiveness in fighting inflation and recession
- The Banking Act of 1980

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The Federal Reserve

- A **central bank** is an institution that oversees and regulates the banking system and controls the monetary base.
- The **Federal Reserve** is a central bank—an institution that oversees and regulates the banking system, and controls the monetary base.
- The Federal Reserve system consists of the Board of Governors in Washington, D.C., plus regional Federal Reserve Banks, each serving its district; of the 12 Federal Reserve districts:

The Federal Reserve System

- **The Federal Reserve Act of 1913 created the Federal Reserve System**
 - To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes
 - **First United States Bank [1791 - 1811]**
 - **Second United States Bank [1816 - 1836]**
 - The charters of both were allowed to lapse
 - **The 1907 bank crises caused the public to demand the government do something to keep this from happening again**

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The Federal Reserve System

- **The Federal Reserve has five main jobs**
 - **Conduct monetary policy which is, by far, the most important job**
 - Monetary policy is the control of the rate of growth of the money supply to foster relatively full employment, price stability, and a satisfactory rate of economic growth
 - **Serve as lender of last resort to commercial banks, savings banks, savings and loan associations, and credit unions**

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The Federal Reserve System

- **Issue currency**
- **Provide banking services to the U.S. government**
- **Supervise and regulate our financial institutions**

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The Federal Reserve District Banks

- Each Federal Reserve District Bank is owned by the several hundred member banks in that district
 - A commercial bank becomes a member by buying stock in the Federal Reserve District Bank
 - So, the Fed is a quasi public-private enterprise, not controlled by the president or Congress
 - Effective control is really exercised by the Federal Reserve Board of Governors in Washington, D.C.

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The Federal Reserve System

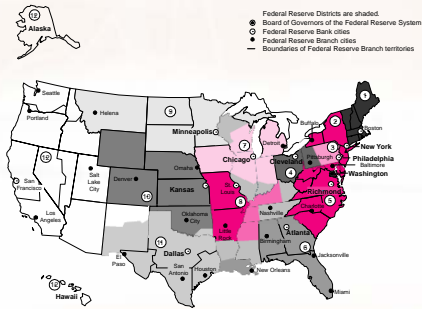
- Board of Governors
 - 7 appointed members
 - Appointed by President
 - Confirmed by Senate
- Sets reserve requirements
- Supervises & regulates member banks
- Establishes and administers regulations
- Oversees Federal Reserve Banks

- 12 District Banks
- Propose discount rates
- Hold reserve balances for member institutions
- Lends reserves
- Furnish currency
- Collects & clears checks
- Handle U.S. government debt & cash balances

Federal Open Market Committee (Board of Governors plus 5 Reserve Bank Presidents. This committee directs open market operations which is the primary instrument of monetary policy)

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The Federal Reserve System



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