

- Analyze the functions of the FED and how it affects everyday life.

# Monetary policy

- Policy that involves changing the rate of growth of the supply of money in circulation in order to affect the cost and availability of credit.

# Functions on the FED

1. Clearing checks- method by which a check that has been deposited in one bank is transferred to the bank on which it was written.

## 2. Acting as the federal governments fiscal agent

- The federal government collects large sums of money through taxation. Some of this money gets deposited in the 12 Federal Reserve district banks, who then distribute that money amount to the thousands of other banks
- The FED keeps track of the governments money, the government holds a checking account with the FED for writing check such as Social Security, tax refunds, and veterans benefits.

### 3. Supervising member banks

The fed regulated the state banks that are members of the FED. In addition the Federal Deposit Insurance Corporation (FDIC) regulates the state banks that are not members of the FED.

The FED controls all banks to one extent or another.

#### 4. Holding reserves and setting reserve requirements

All banks are required by law to keep certain percentage of the deposits in reserve (FDIC) by raising or lowering the percentage required the FED can change the amount of money in circulation.

This give the FED a lot of power

## 5. Supplying paper currency

The FED is responsible for maintaining and regulating the nations paper money. Money is printed in DC at the Bureau of printing and engraving. Each note has a code number indicating which of the 12 FED banks issued the money

The money is then shipped to one of the 12 banks to be put into circulation. Much of this money simply replaces old money they give more money to the banks during the holiday season when customers withdraw large sums of cash.

## 6. Regulating the money supply

The primary responsibility of the Fed is determining the amount of money in circulation which in turn affects the amount of credit and business activity in the economy.