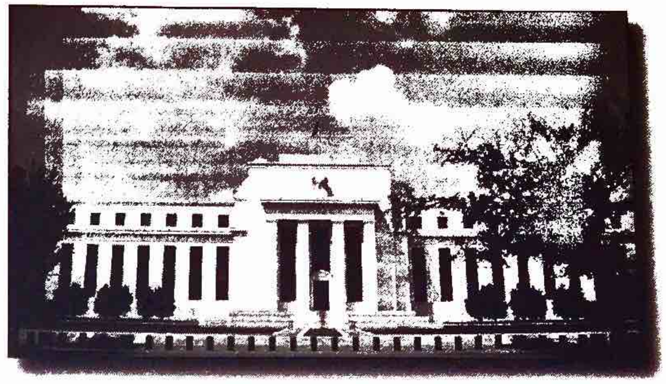
The Federal Reserve



The **Federal Reserve** is the central bank in the United States. It is comprised of 12 Federal Reserve banks located across the United States and is headed by a seven-member Federal Reserve Board in Washington, D.C. The Federal Reserve was established in 1913 to strengthen the banking activities of the nation. The Federal Reserve not only insures all deposits made in member banks, but is the most important control over the money supply in the United States.

The Federal Reserve can affect the supply of money available in three important ways:

1. The Federal Reserve sets and changes the requirements on how much money banks must keep in reserve. This is the amount of cash a bank keeps on hand to fulfill their customers' day-to-day requests. Remember that the rest of the money in a bank is usually lent out to make interest. A bank's reserves include the cash on hand in its own safes and money it must put in an account at the Federal Reserve bank.
2. The Federal Reserve can buy and sell government bonds. A **bond** is a certificate issued by a government or business that needs to borrow money. They will pay the buyer of the bond back later with interest.
3. The Federal Reserve can loan money out to banks when they are short on reserves.

How do these things affect the money supply? Well . . .

1. Changing the amount of money held in reserve at banks changes the amount of money available to loan out. If the reserve amount is increased, then less money will be available for loans. This will decrease the demand for products, decrease production, and sometimes cause a cutback in workers and increase unemployment. This is called a **recession.** Decreasing the amount held in reserve will have the opposite effect. This will increase the amount of money available for loan and increase consumer demand for products (since they have more money with which to buy them). Increased demand will cause increased production and a greater demand for workers. This is called **inflation.**
2. The Federal Reserve can sell government bonds. Selling bonds will take money out of the economy as buyers pull their money out of banks to pay for them. This in turn causes a lesser amount of money to be available for loans. The Federal Reserve can also buy bonds to put money back into the banks and increase loans.
3. Loaning money to banks in trouble helps prevent everyone from withdrawing their money from a troubled bank all at the same time.

Name: ______________________ Date: ______________

The Federal Reserve: Questions

Answer the following questions in complete sentences using information from the previous page.

1. Why was the Federal Reserve established?

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2. How do Federal Reserve banks get their money?

____

____

3. What do banks do with the money not held in reserve? Why?

____

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4. Why can't all depositors in a bank withdraw all of their money at once?

____

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5. List three ways the Federal Reserve can affect the money supply.

____

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6. Why do you think the Federal Reserve wants to affect the money supply?

____

____

7. What happens when too much money is in circulation?

____

____

____

8. What happens when too little money is in circulation?

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____

____

The Federal Reserve

" The Gatekeeper of the US Economy"

"The Central Bank of the US"

Personal Finance

Introduction:

What three things does the Fed do?

1.
2.
3.

How does it do these things?

1.
2.

Why does it do these things?

1.
2.
3.

Directions: Go to http://money.howstuffworks.com/fed.htm to answer the following questions. You may also use this site to complete your video worksheet from today.

1. *Why is inflation NOT good for our economy?*
   It slows down ______________ ______________

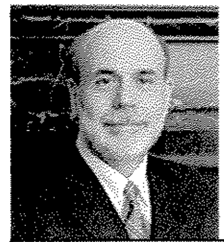
2. *How does it do this?*
   a. Things cost more so people ___________ less.
   b. People do less ____ - _____ planning in things like __________ and investing. They are afraid to spend money because of ________________________
   c. People borrow less because of the additional costs to long-term ______________ ______________

3. *Inflation summarized:*
   Demand is ______________ and supply of goods ______________.
   Production ______________ and unemployment ______________;
   Which leads to ______________.

4. *What can the Fed do when recession hits?*
   a. ______________ interest rates
   b. Encourage people to ______________ money and make ______________.

5. *Why does the Fed need to be careful when lowering interest rates?*
   So ______________ isn't impacted in the ______ run.

6. *Name the two Fed divisions and what they are responsible for.*



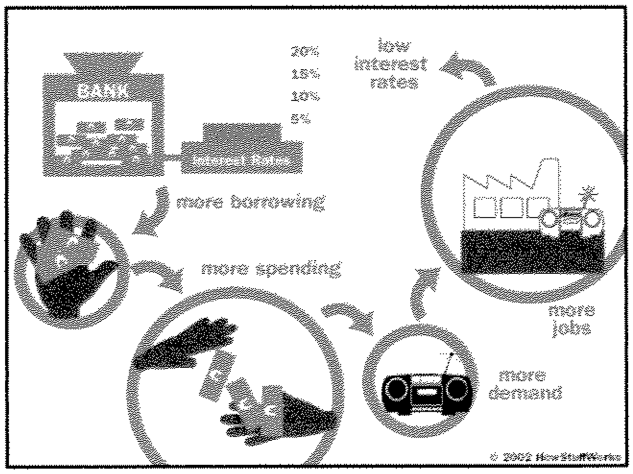
Ben Bernacki – Chairman of the Board of Govenors

   a. ______________________
      i. set monetary ________
      ii. manage ________ money

   b. 12 ______________________
      i. carry out ________ of the Board
      ii. supervise ________ ______________

7. *What are the Fed's two primary goals in managing money?*
   a. maintain ________ __________
   b. maximum ____________ and __________ ____________

8. *What does raising and lowering the interest rates influence?*
   ____



9. *Complete the following paragraph:*
   When interest rates go <u>DOWN</u>, people spend ______ because purchasing becomes less expensive. This spending ____________ growth in the economy, but if it happens too _____ demand will _________ too fast and supply cannot keep up. Prices then ________ too quickly which leads to ______________.

10. *How is the Fed the "banker's bank"?*
   Processes and clears a ______ of all checks which is approximately 20 ________ checks per year.

11. *How is the Fed the "government's bank"?*
   Maintains the ____

12. *What bureau's produce coin and paper currency?*
   Bureau of _____
   Bureau of ______________________

13. *Which three ways does the Fed influence the amount of money in circulation and explain each?*

   a. Reserve ________________

      i. Banks required to set aside ________________________ usually 3 to ___ percent of their deposits

   b. Discount ______________

      i. The _________________ ______ paid by banks to borrow from a reserve bank.

   c. Open _________________

      i. Buying and Selling ________________

      ii. They SELL to _____________ the money supply which in turn _____________ interest rates.

      iii. They BUY to _____________ the money supply which in turn _____________ interest rates.

14. *Why is the Fed called "a decentralized, central" bank?*

   a. It is structured to ________________ government control, but remains accountable to ____________________ and the _____________.

   b. Board is the ___________________ side.

   c. Reserve banks are the ___________ side.

15. *In examining monetary policy, the FOMC (Federal ______________________________) examines which economic indicators (name the first five)?*

   a.

   b.

   c.

   d.

   e.

Based upon what you have learned from this website, what state (recession, inflation, depression, expansion) is our economy in currently and why do you believe this?

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