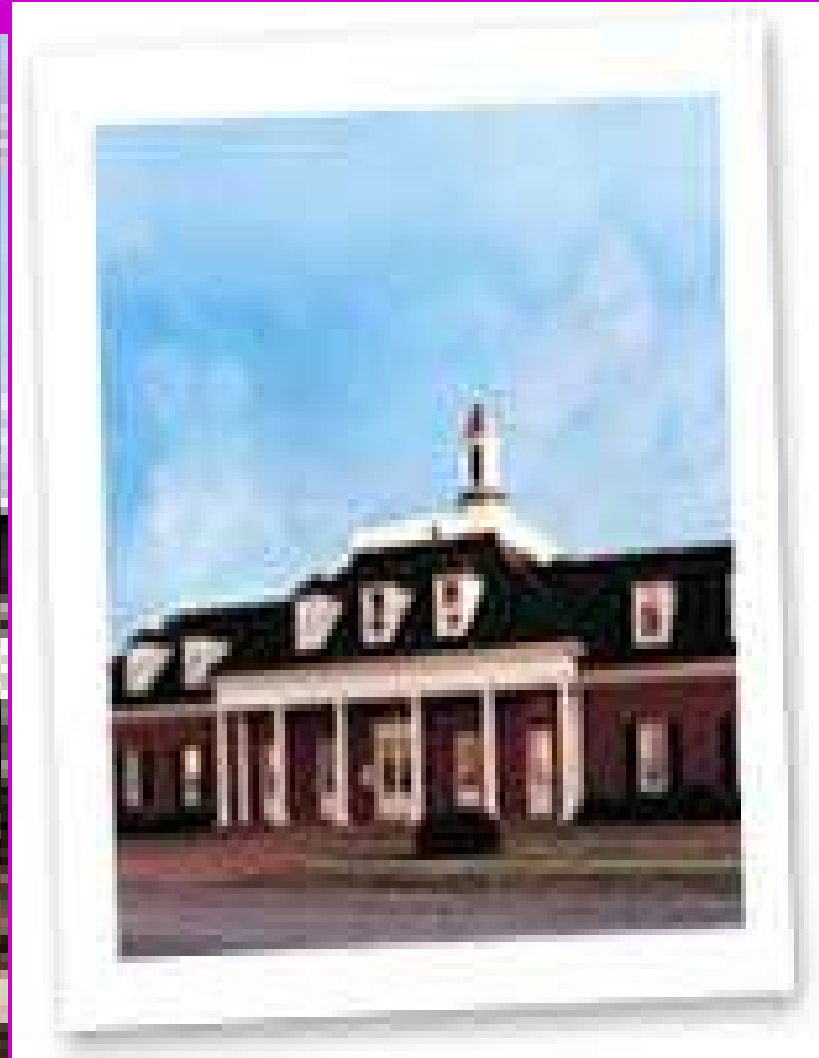
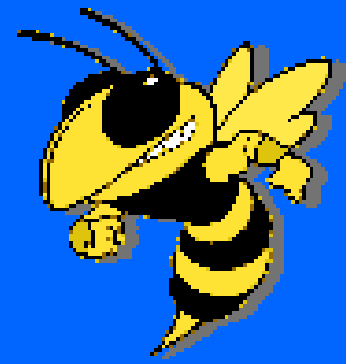


# Chapter 14: Banks and the Federal Reserve System



**Essential Question: What are the role and characteristics of the Federal Reserve System?**



**Objectives:**

- **What occurs during a bank panic?**
- **How is U.S. monetary policy used to create price stability, full employment and economic growth?**
- **What are the functions of the Federal Reserve System?**
- **What is the function of the Board of Governors and Advisory Committee at the Fed?**
- **What is a discount rate?**
- **What are Open Market operations?**
- **What are the types of banks?**
- **How would one choose a bank for their personal use?**
- **What is the purpose of the FDIC?**

# Vocabulary

- Federal Reserve
- Fed
- FDIC
- Bank Panic
- Securities and Exchange Committee
- SEC
- monetary policy
- Open Market Committee
- Advisory Committees
- Commercial Banks
- Savings and Loans
- Credit unions

# Bank Panics



- People got **scared** about their money, bank, or the economy. They literally ran to withdraw their money from their bank. The Bank closed for business. Many people lost all their money. Why might that be?

---

---

---


# Stop Bank Panics!

- In 1913, our government decided to stop bank panics
- President Wilson and the Congress set up the Federal Reserve System and it became the central bank of the United States and the basis of the United States monetary policy.

DECEMBER 24, 1913—SIXTEEN PAGES—PRICE TWO CENTS

## PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.



Makes Speech to Group of Democratic Leaders.

Conference Report Adopted in Senate by Vote of 43 to 26.

Banks All Over the Country Hasten to Enter Federal Reserve System.

Gov.-Elect Wilson Calls Passage of Bill A Fine Christmas Present.

HOME VIEWS OF FOUR PENS USED BY PRESIDENT

### WILSON SEES DAWN OF NEW ERA IN BUSINESS

Aims to Make Prosperity Free to Have Unimpaired Momentum.

# The Federal Reserve System or the Fed

- **12 main banks** in different parts of the country
- President appoints Leadership of the Federal Reserve

- Run by a **Committee of Seven (7)** called the **Board of Governors**
- Has two(2) main parts called the **Open Market Committee** and the **Advisory Committees**. Their role is to control the money supply and influence the economy for good.
- **Fed Issues all of the paper money** and coins used in the U.S
- Sometimes called the **banks' banker**

## THE FEDERAL RESERVE SYSTEM



The System's formal organization is shown in blue.



# What the Federal Reserve does or its **Functions**

- They **clear checks** from one bank to another
- Tells banks how many **loans they can make** in order to control the nation's money supply
- Tells banks how **much money they can keep** on hand in order to keep money flowing
- **Insures people's deposits** in their local banks so there will be no bank panics
- Main job is to make the economy run smoothly. They **"Keep it all straight"**

© Original Artist  
Reproduction rights obtainable from  
[www.CartoonStock.com](http://www.CartoonStock.com)

The Fed is your  
economic  
watchdog



“My job might be boring, but it puts  
food under the table.”



# How do banks and the Federal Reserve operate with checking accounts?

Federal Reserve Bank in Atlanta

Sun City Bank in Florida

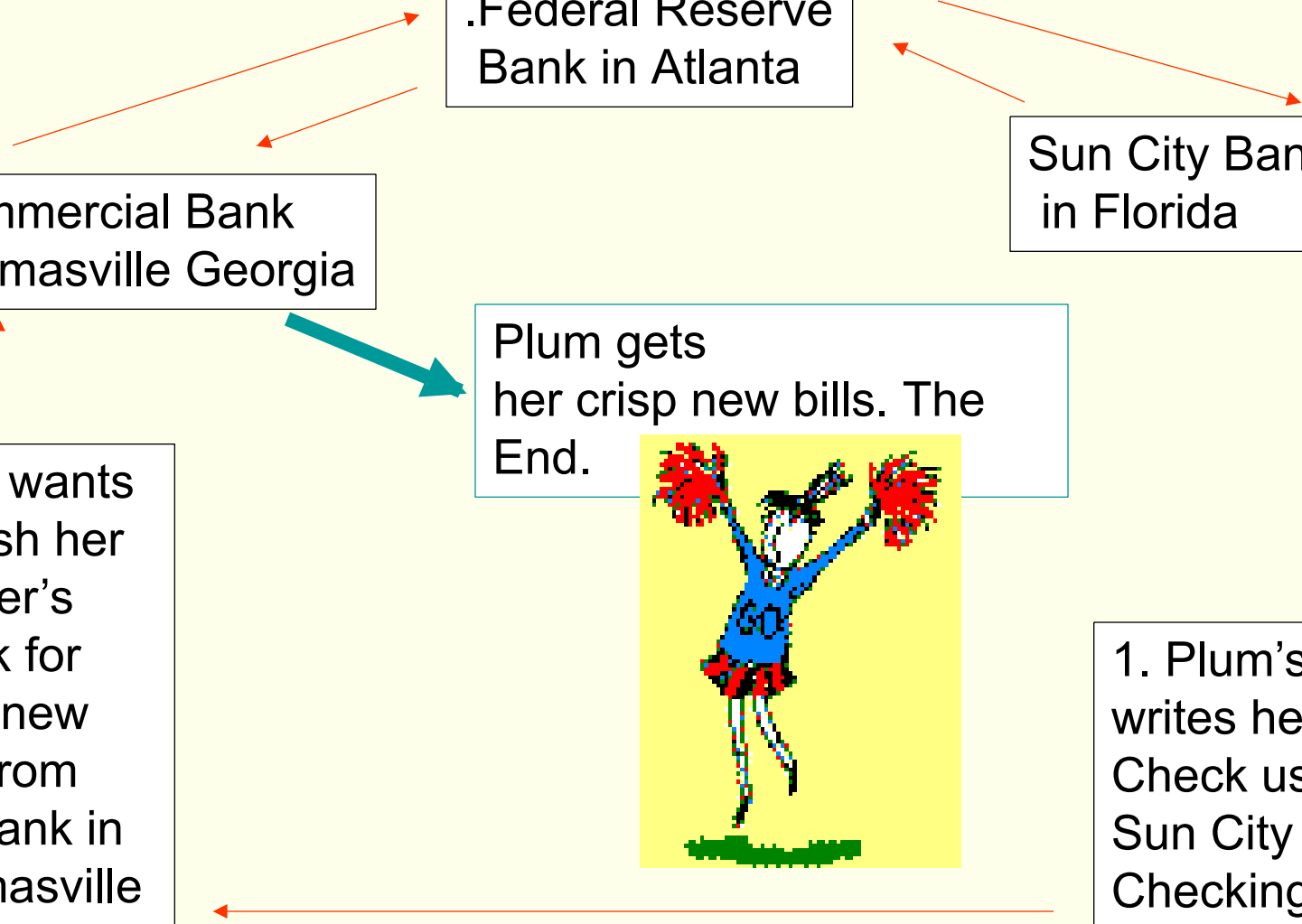
Commercial Bank Thomasville Georgia

Plum gets her crisp new bills. The End.

Plum wants to cash her brother's check for crisp new bills from her bank in Thomasville



1. Plum's brother writes her a Check using his Sun City Florida Checking account



# How do banks and the Federal Reserve operate with Loans?

Federal Reserve  
Bank in Atlanta

Commercial Bank  
Thomasville Georgia



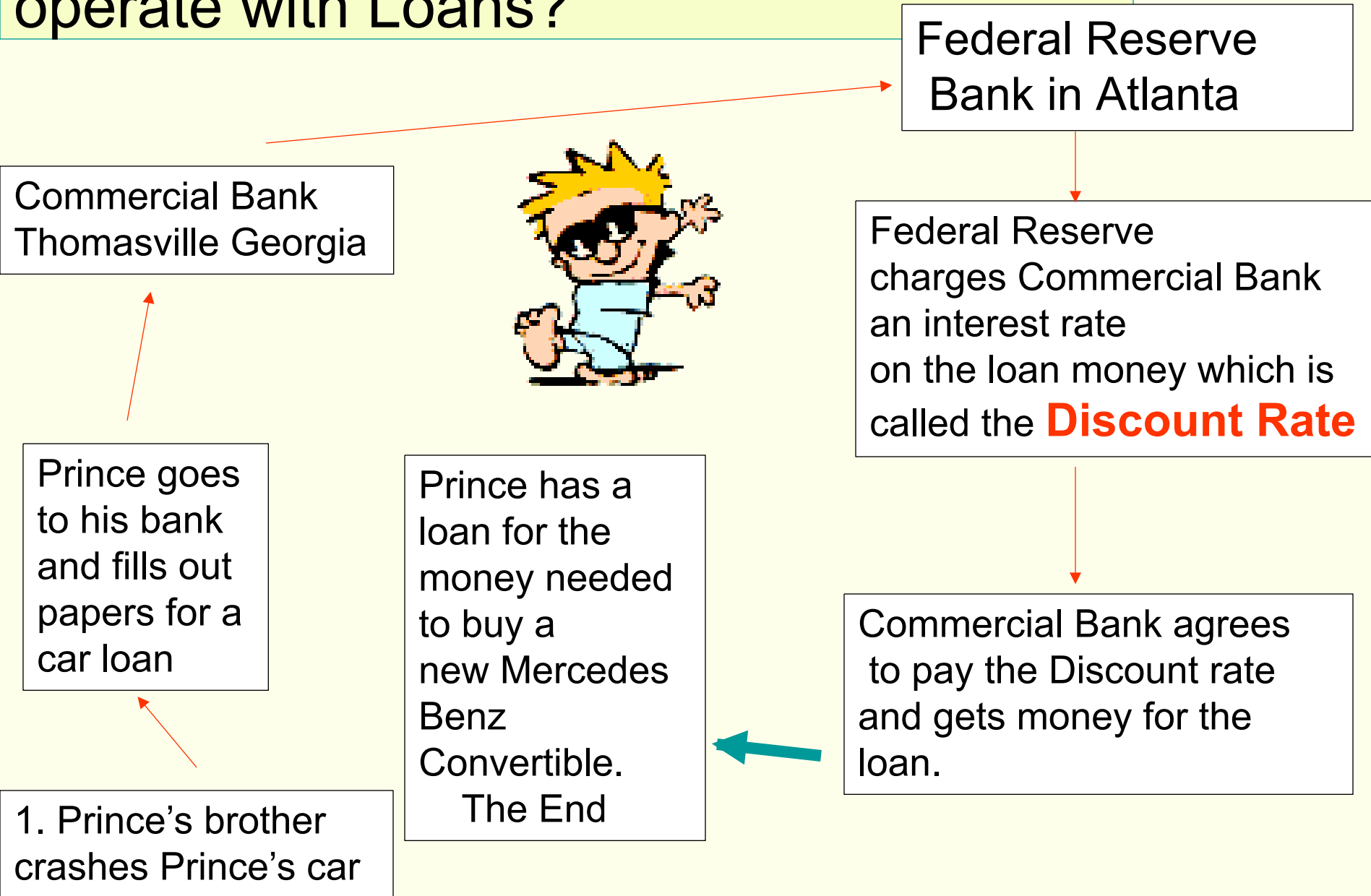
Federal Reserve  
charges Commercial Bank  
an interest rate  
on the loan money which is  
called the **Discount Rate**

Prince goes  
to his bank  
and fills out  
papers for a  
car loan

Prince has a  
loan for the  
money needed  
to buy a  
new Mercedes  
Benz  
Convertible.  
The End

Commercial Bank agrees  
to pay the Discount rate  
and gets money for the  
loan.

1. Prince's brother  
crashes Prince's car

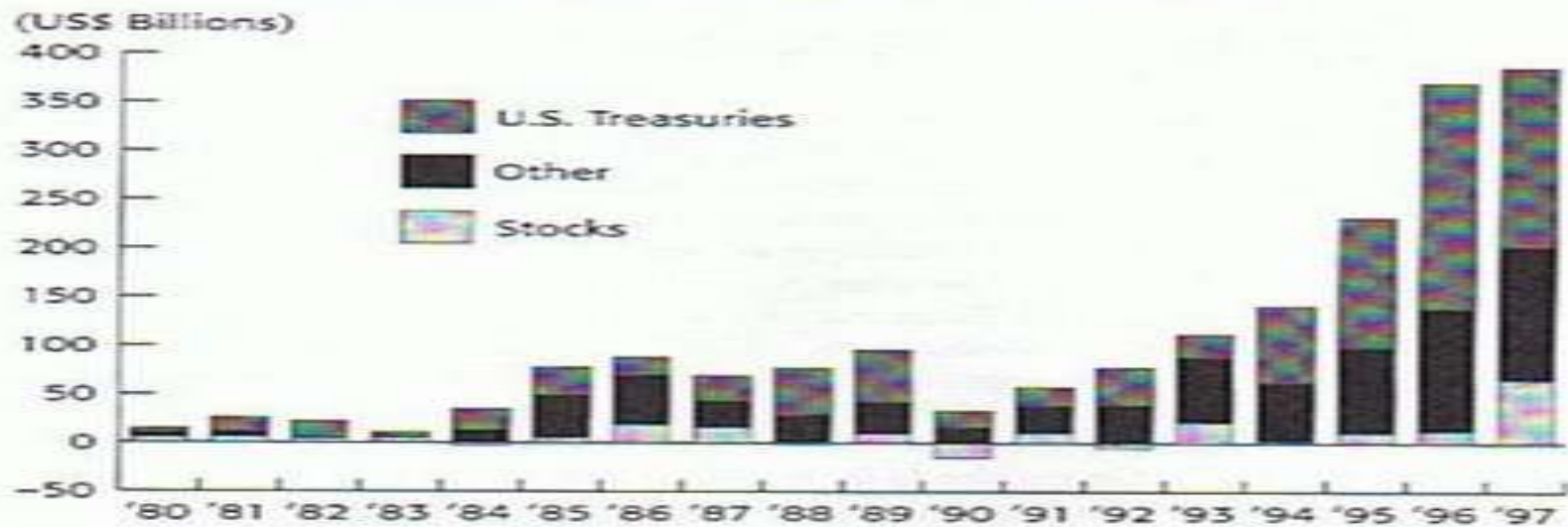


# Federal Open Market Committee

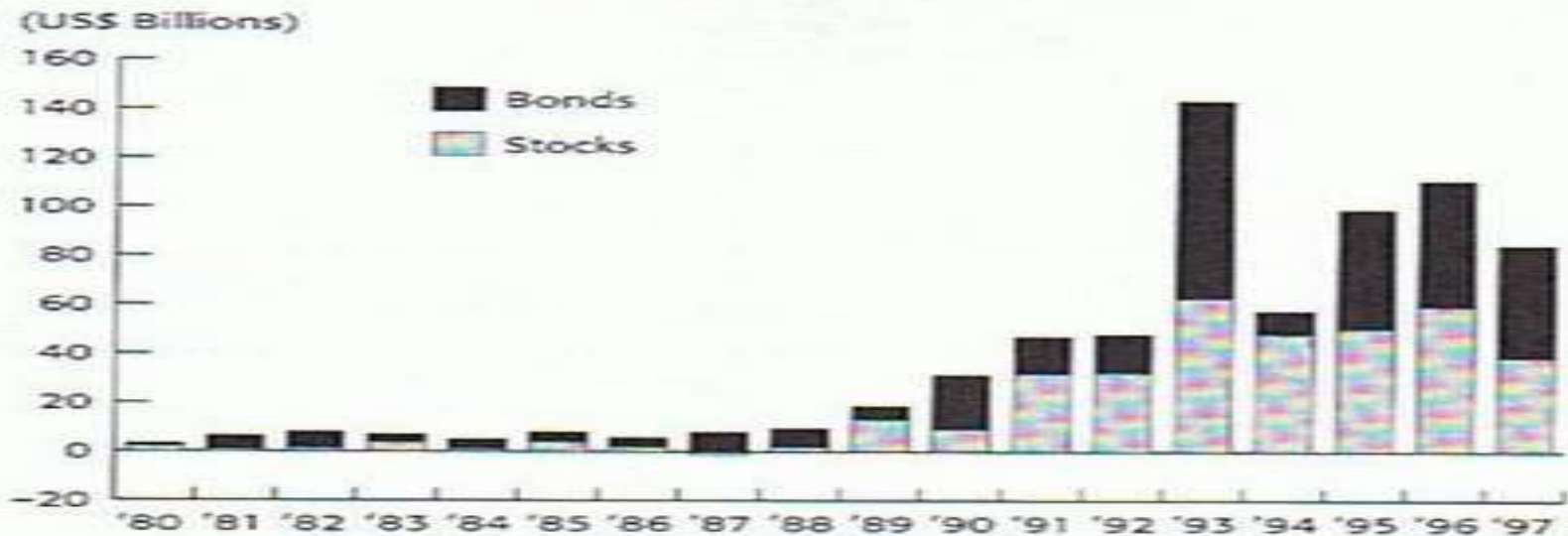
- The FOMC buys and sells US government securities as a way of regulating the money supply
- This is the number one way that the government controls the flow of money in the US
- The Fed also controls the open market that is the US economy by deciding who has the money and how much of it



### Net Foreign Purchases of U.S. Securities



### Net U.S. Purchases of Foreign Securities



# Securities and Exchange Committee

- The SEC was established by the United States Congress in 1934 as a regulatory agency following years of the Great Depression caused by over production of goods, the introduction of consumer credit, and the Great Crash of 1929.
- The main reason for the creation of the SEC was to **regulate the stock market** and prevent corporate abuses
- The SEC was given the power to license and regulate stock exchanges.
- The enforcement authority given by Congress allows the SEC to bring civil enforcement actions against individuals or companies found to have committed **accounting fraud, provided false information, or engaged in insider trading** or other violations of the securities law.



The Results for you!



# Review: Organizational chart for the Federal Reserve System

President supports, Congress confirms

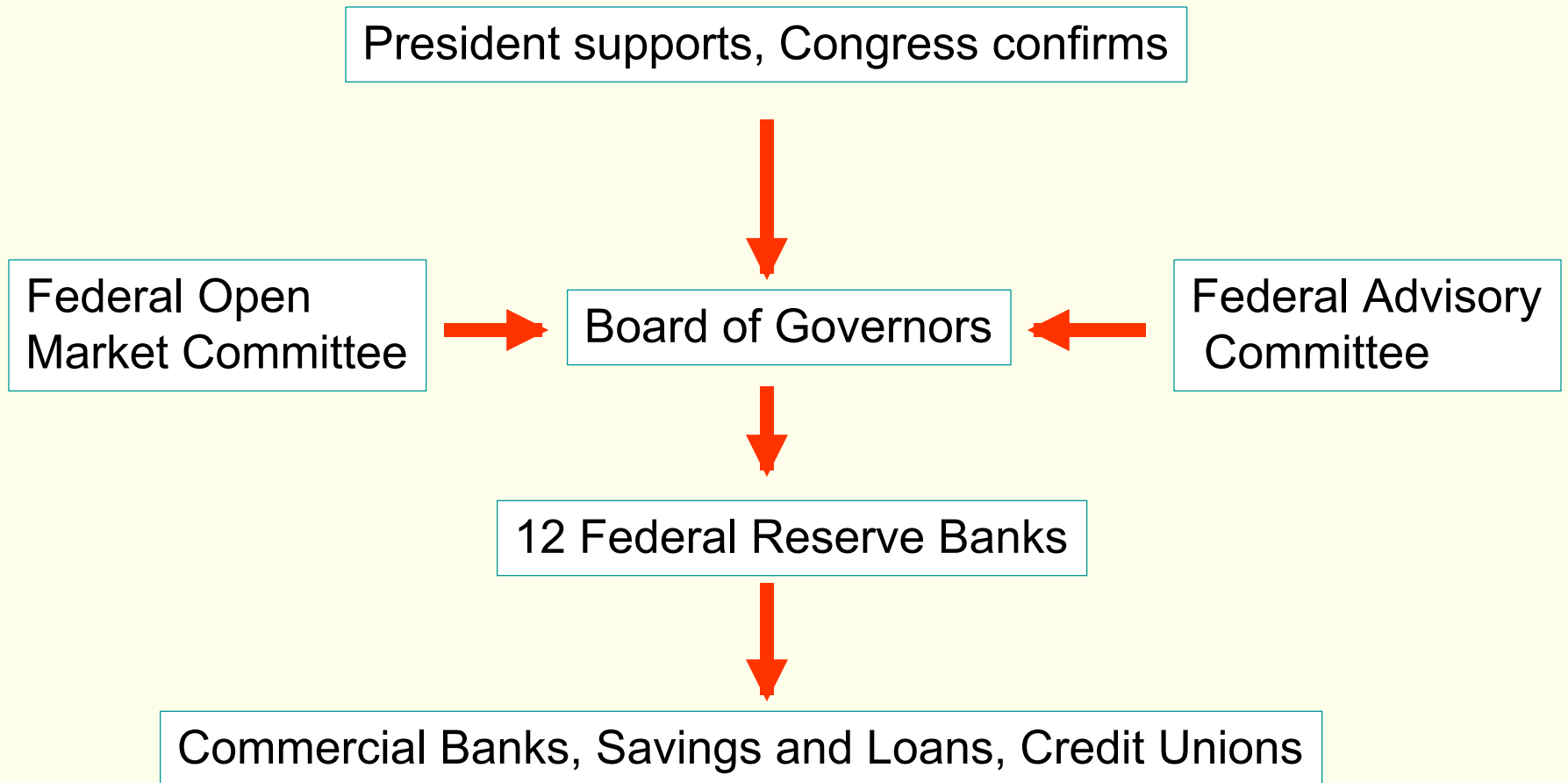
Federal Open  
Market Committee

Board of Governors

Federal Advisory  
Committee

12 Federal Reserve Banks

Commercial Banks, Savings and Loans, Credit Unions





# Three Types of Banks



## 1. Commercial Banks

- Provide checking and savings accounts for people and business
- Privately owned
- Make loans for things like cars, home improvement

## 2. Savings and Loans Associations

- Main job is to make loans to people who want to buy homes
- Owned by the people who have accounts there



# 3. Credit Unions

- Owned by the people who do their banking there
- Sometimes owned by a specific company's employees like the Flower's credit union
- Pay slightly high interest rates on savings accounts that other banks
- Usually charge lower interest rates in loans



# The FDIC ( Federal Deposit Insurance Corporation)



**FDIC**

- This is NOT the Federal Reserve System
- Started by the government in 1934 after many banks failed during the great Depression.
- Basically an insurance policy for the consumer and business who have their money in a bank
- The FDIC insures bank deposits for up to \$100,000 per person.
- People know their money is insured and do not panic and run to get it out.
- A big help for the little guy!

# Activity-

How were the Stock market crashes in 1929 and 1987 different and why?



# *The End by Miz D*

