

The Federal Reserve System



SSEMA2 The student will explain the role and functions of the Federal Reserve System.

The Federal Reserve System

- 🐼 The **Federal Reserve System** is the United States' decentralized, central bank.
- 🐼 The Fed is called a "decentralized" central bank, which in itself seems to be a contradiction. It works because the Fed is uniquely structured to eliminate government control but still remains accountable to both the government and the public.

The Federal Reserve System

- It is both public and private in nature.
- It was created in 1913 to help instill trust in the country's banking system.
- Since the Federal Reserve can act as the “lender of last resort” to help struggling banks meet their depositor's demand for money, people are less likely to fear bank failure.

Congress

- 👉 It was created by an act of Congress, so it can be dissolved by an act of Congress.
- 👉 In this way, the Federal Reserve is checked by those elected by the people.

Board of Governors and FOMC

- ❧ The seven members of the Board of Governors of the Federal Reserve System are nominated by the President and confirmed by the Senate.
- ❧ They are the public part of the Federal Open Market Committee that makes monetary policy decisions.
- ❧ A full term is fourteen years.

Board of Governors and FOMC

- 🐜 One term begins every two years, on February 1 of even-numbered years.
- 🐜 The Chairman and the Vice Chairman of the Board are named by the President from among the members and are confirmed by the Senate.
- 🐜 They serve a term of four years.

U.S. Government

- 🦋 The Federal Reserve is the fiscal agent (manages financial matters) for the United States government.

Federal Reserve Note

- 🦋 The United States paper currency is called a Federal Reserve Note because it is backed by the assets of the Federal Reserve mainly the government securities (bonds) it holds.

Profits of the Fed

- 🍷 Profits earned by the Federal Reserve System are transferred to the United States government.
- 🍷 In 2011, the Federal Reserve transferred over \$79 billion in profits to the U.S. Treasury.

District Banks

- 🦋 The system is decentralized with 12 district banks serving the needs of different regions of the country.

Services of the District Banks

- 🍷 Each district Federal Reserve Bank is organized as a private corporation and it self-financed through interest earned on securities held or payments for services.