Economic Summit
The Economy in Action
Federal Reserve Bank of Dallas
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The Federal Reserve System:
An Evolving Central Bank

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A History of Financial Panics

- Financial panics are a part of United States history
- The Panic of 1907
  - Jolted Wall Street
  - Highlighted need for financial reform
An act 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.

Preamble
Federal Reserve Act of 1913
The Critical Balance

• Public versus Private
• National versus Regional
The Structure of the Fed
Structure of the Fed: The Board of Governors
The Structure of the Fed: 12 Regional Banks
The Structure of the Fed: The FOMC
The FOMC and Monetary Policy

• Set target fed funds rate
• Take into account input from the Board and Reserve Banks to determine economic conditions
• Conduct open market operations
Dual Mandate of Monetary Policy

• Stable Prices
• Maximum Employment
Inflation

• General rise in prices over time
Employment

Fed Funds Target

Employment

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Other Tools of Monetary Policy

- Reserve requirements
- Discount rate
Monetary vs. Fiscal Policy

• Monetary Policy
  – Conducted by the Fed
  – Three main tools

• Fiscal Policy
  – Congress
  – Taxation and spending
Purpose of the Fed

• Conducting Monetary Policy
• Supervision and Regulation
Regulations

• Written rules
• Written in response to legislation under the direction of Congress
Supervision

- The enforcement of regulations
Existing Regulation

Federal Reserve Board
Comptroller of the Currency
Federal Deposit Insurance Corporation
State Bank Departments
Securities and Exchange Commission
Department of Justice

National Bank
Holding Company
State Member Bank
Holding Company
State Non-Member Bank
Holding Company

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Purpose of the Fed

• Conducting Monetary Policy
• Supervision and Regulation
• Provide Financial Services
Providing Financial Services

- Bankers’ Bank
  - Cash Services
  - Check Processing
  - Electronic Payments
Eleventh District Note
Eleventh District Note
Printed in Fort Worth (BEP)
Composition of a Note
Providing Financial Services

- United States Government’s Bank
Summary

• The Federal Reserve System is a three-part system.
  – The Board of Governors
  – The Reserve Banks
  – The Federal Open Market Committee
• The Federal Reserve System has three main purposes.
  – Monetary policy
  – Supervision and regulation
  – Financial services
This, not That

- The Federal Reserve System conducts monetary policy, not fiscal policy.
- The Federal Reserve System is self-sufficient, not paid for by tax dollars.
- The Federal Reserve is responsible for putting money into circulation, not printing money.