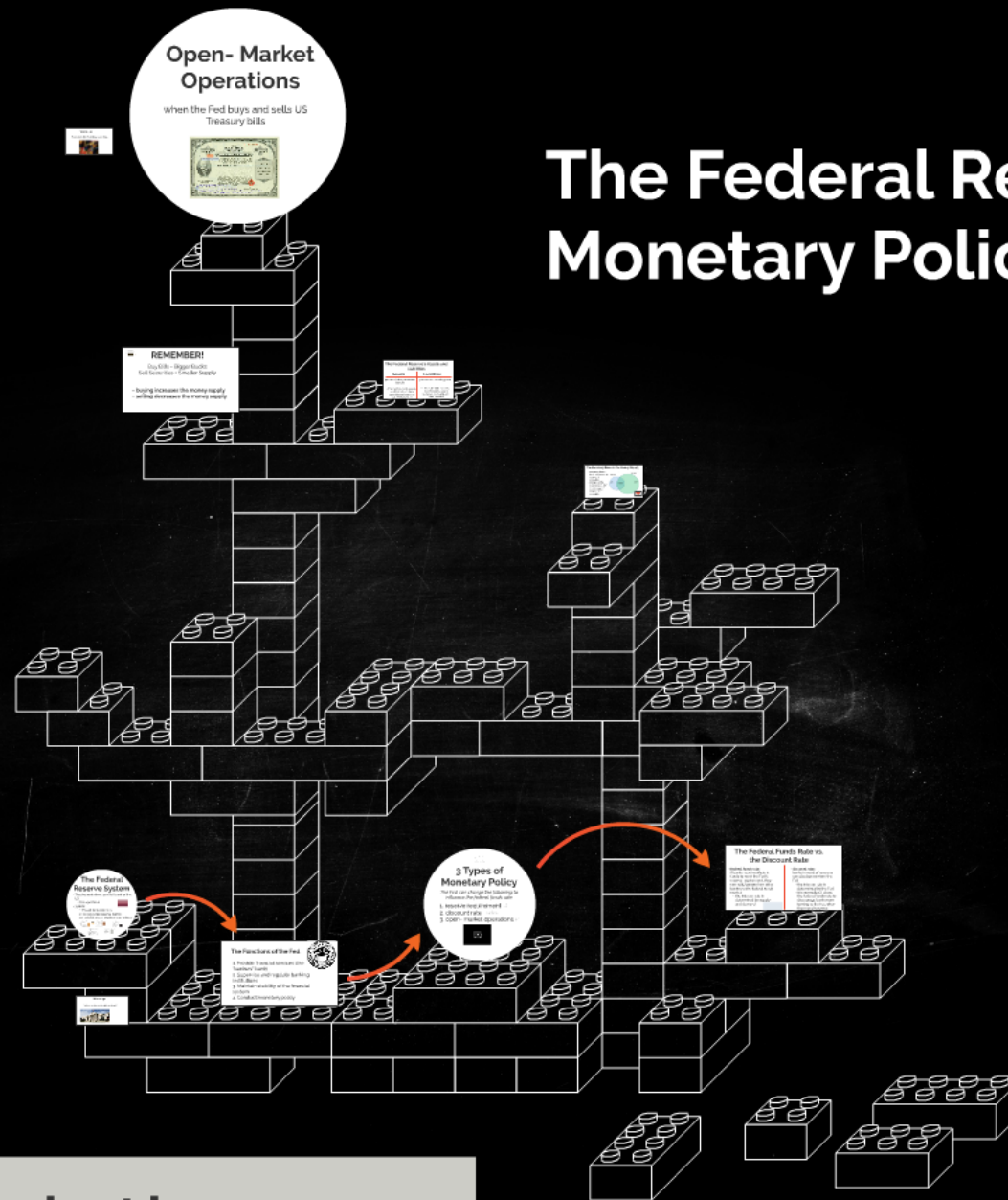
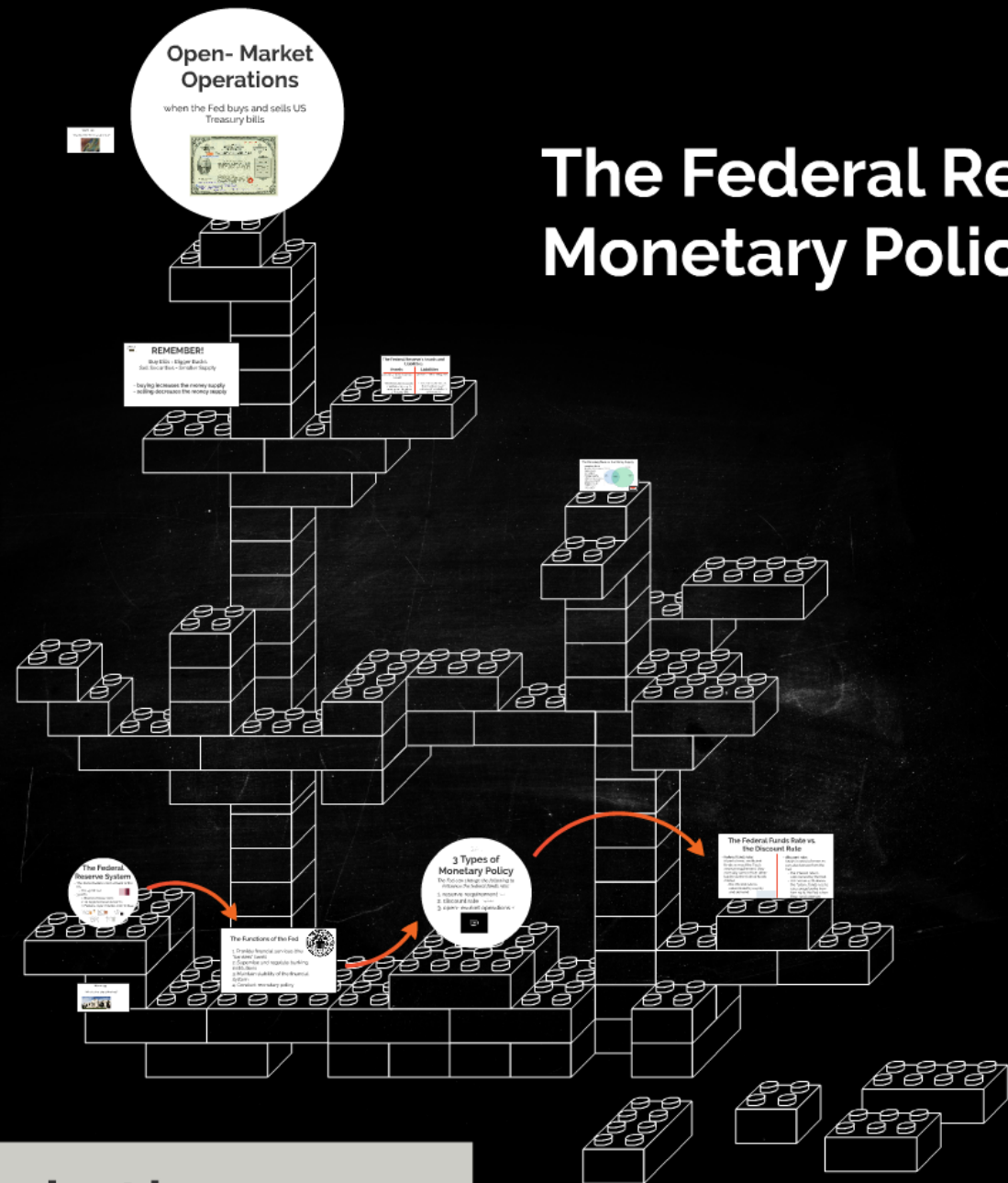


The Federal Reserve and Monetary Policy



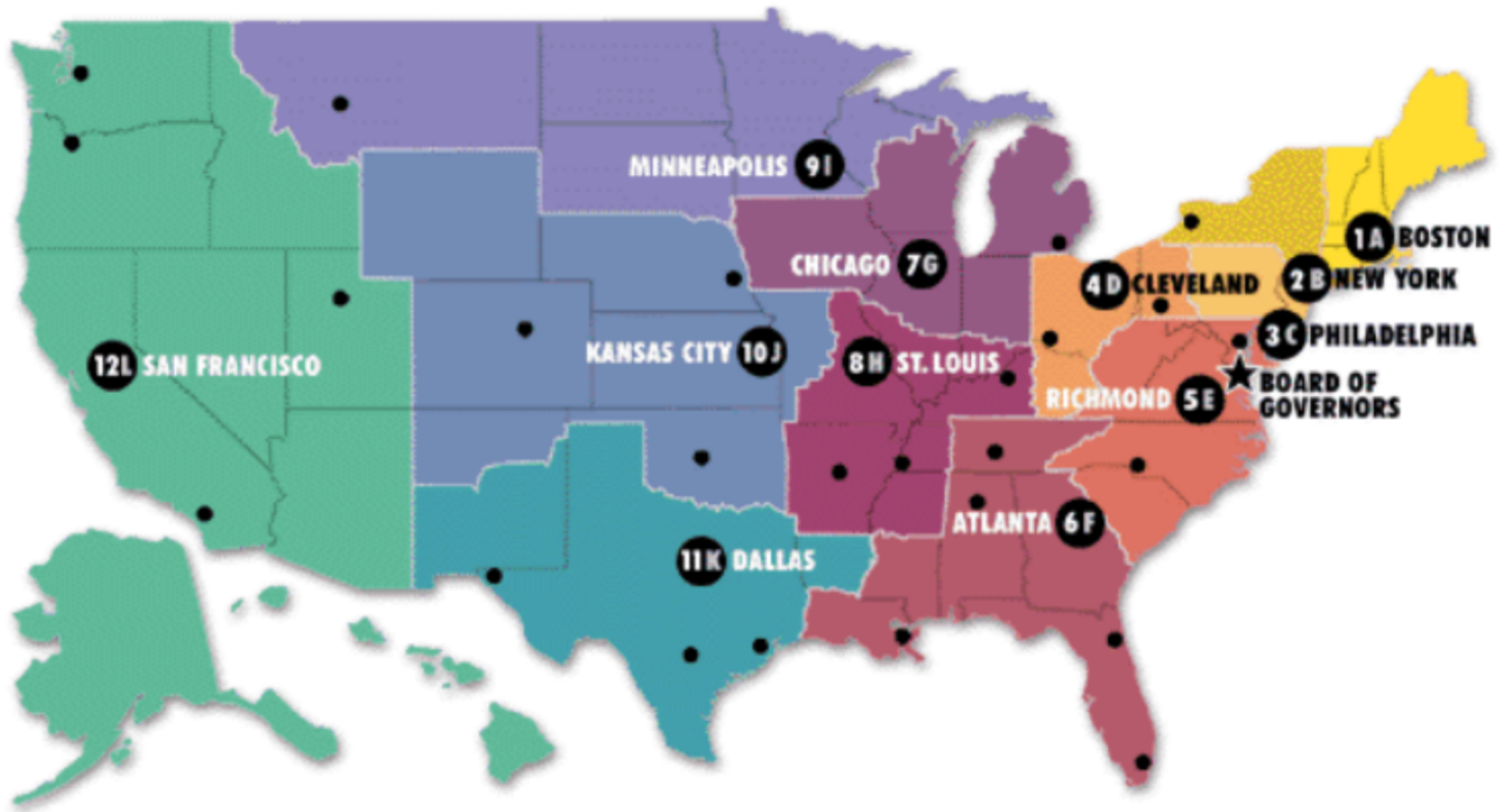
The Federal Reserve and Monetary Policy





Where is my Fed?

Where is my Fed?



Warm- up:

What is the role of the Fed?



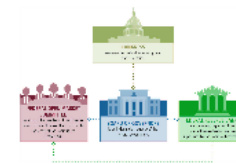
The Federal Reserve System

- The decentralized central bank of the US

- It is apolitical

- 3 parts:

1. Board of Governors
2. 12 regional reserve banks
3. Federal Open Market Committee



First Currency in the US

- Known as "continentals"
- Created to finance the American Revolution
- Fiat money
- Led to inflation
- Wild at first, rapidly accelerated as the war progressed
- Eventually, people lost faith in the notes
 - The phrase "Not worth a continental" came to mean "utterly worthless"



First Attempt at Central Banking:

- Alexander Hamilton established the First Bank of the US in 1791
- in his jurisdiction
- It was the largest corporation in the country and was dominated by big banking and money interests
- Many agrarian-minded Americans were uncomfortable with the idea of a large and powerful bank
- When the bank's 20-year charter expired in 1811, Congress refused to renew it by one vote



Take 2!

- Congress chartered the Second Bank in 1816
- Andrew Jackson, a central bank foe, was elected president in 1828
- His attack on its banker-controlled power touched a popular nerve with Americans, and when the Second Bank's charter expired in 1836, it was not renewed.



1836-1865: The Free Banking Era

- State-chartered banks and unregulated "free banks" issued their own notes, redeemable in gold or specie

1863: National Banking Act

- Provided nationally chartered banks whose circulating notes had to be backed by U.S. government securities
- Created a uniform currency for the nation
- During the Civil War
- State banks continued to flourish due to demand (specie)

1873-1907: Financial Panics Prevail

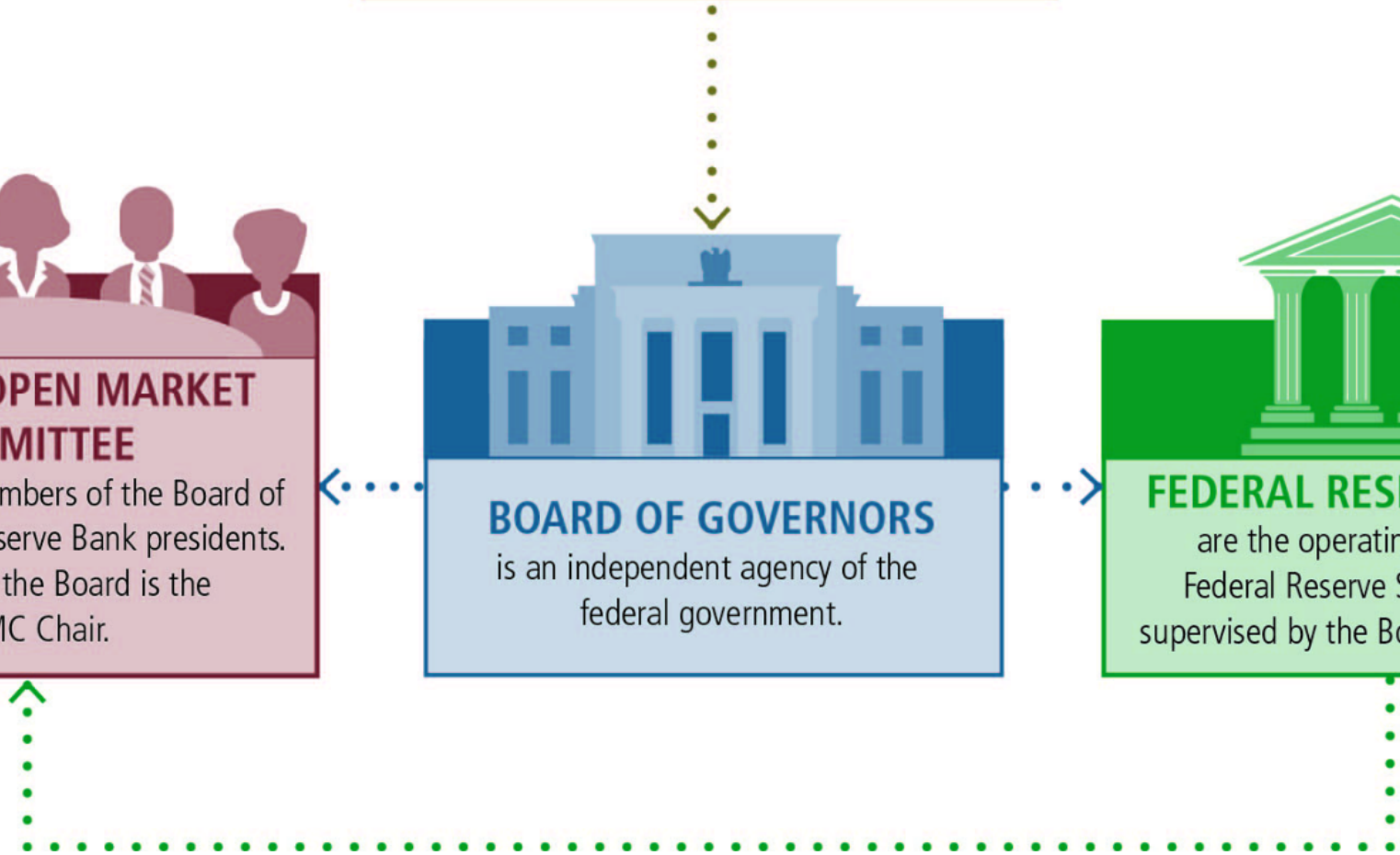
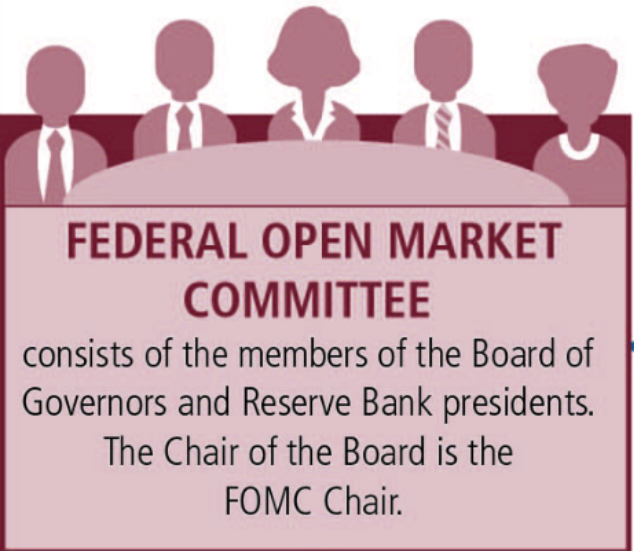
- Bank runs and financial panics
- Intervention by J.P. Morgan



1913: The Federal Reserve System is Born

- December 23, 1913
- President Woodrow Wilson signed the Federal Reserve Act (FRA)
- A decentralized central bank that balanced the competing interests of urban banks and rural settlement





First Currency in the US

- Known as "continentals"
- Created to finance the American Revolution
- Fiat money
- Led to inflation
 - Mild at first, rapidly accelerated as the war progressed
- Eventually, people lost faith in the notes
 - The phrase "Not worth a continental" came to mean "utterly worthless."

