

THE FED TODAY

History, Structure, Monetary Policy, Banking Supervision, Financial Services, and More!

LESSON ONE:

THE FED TODAY: A VIDEO ON THE FEDERAL RESERVE

LESSON OVERVIEW:

The Fed Today video begins with the statement “Money—it certainly makes the world go around.” Narrated by Charles Osgood, the video is a 14-minute fast moving and informative introduction to the Federal Reserve System. It provides graphic footage that clarifies the Fed’s complex structure and role in the U.S. economy. This lesson helps students make the connection between the Fed’s mission and a healthy U.S. economy.

To encourage active viewing, students are divided into six groups and are given specific tasks to report on after watching the video. The six groups correspond to the six categories that are used to organize the video—history, structure, monetary policy, financial services, banking supervision and the Fed today. The video takes students from the early history of banking in the 1800s, through the formation of the Federal Reserve in 1913, up to the present day.

STUDENT OBJECTIVES:

Students will:

- List significant historical events that led to the establishment of the Federal Reserve System.
- Identify key structural elements of the Federal Reserve.
- Explain important roles that the Fed plays in the economy (monetary policy, bank supervision, and the payments system).

TIME NEEDED:

One-two 50-minute class periods

MATERIALS:

- *The Fed Today* video and companion brochure (order at no charge to teachers at: <http://www.kc.frb.org/teachers/>)
- Student Handout: *Questions and Answers for The Fed Today Video*
- Answer Key: *Questions and Answers for The Fed Today Video*
- Access to the FED101 website: <http://www.kc.frb.org/fed101/> to review additional classroom resources. (Optional)

TEACHER PREPARATION:

1. View the video and note the subject-area headings provided (History, Structure, Monetary Policy, Financial Services, Banking Supervision, and the Fed Today).
2. Review the content in the companion brochure to *The Fed Today* video.
3. Review questions and answers in the Answer Key: *Questions and Answers for The Fed Today Video*.
4. Prepare copies of Student Handout: *Questions and Answers for The Fed Today Video*.
5. Review the FED101 website located at <http://www.kc.frb.org/fed101/>.

ACTIVITY:

Understanding the Fed's Role in the U.S. Economy

PROCEDURES:

1. Begin the lesson by showing students a one-dollar bill and ask if they know how this makes the world go around. Ask students to look at their own bills and find the words "Federal Reserve Note." Find out how much the students already know about the Federal Reserve and its role in the U.S. economy.
2. Announce that the class will be viewing a video on the Federal Reserve that will give them an overview of the Fed from its founding to the present day.
3. Divide the class into six groups and distribute Student Handout: *Questions and Answers for The Fed Today Video*. Give each group a topic with a title that corresponds to a category in the video: **history**, **structure**, **monetary policy**, **financial services**, **banking supervision**, and **the Fed today**. Have the groups make a name tent or small sign with their group topic.
4. Explain that the task for each group, after watching the video, is to make a report that mentions at least five things group members learned about their topic (topics include history, banking supervision, etc.). Students may use the Student Handout as a starting point and add items to the list. Specify that at the end of the video, all group members will have time to prepare their class report. They will need to share information so that they can include five items. One person in each group will be the spokesperson.
5. Show *The Fed Today* video (14 minutes). Allow students time to prepare their reports. Work with each group to encourage every student to share his or her notes and recollections for the presentation.
6. Acknowledge and summarize the reports from each of the six groups. Use the Answer Key: *Question and Answers for The Fed Today Video* (at the end of Lesson One) to further clarify or expand on information presented by students representing each of the six groups. These questions can also be used as a way to evaluate the lesson, as a homework assignment, or as part of a weekly quiz.
7. **Teacher Summary:** Explain to students that the Federal Reserve plays an important role in the U.S. economy. Ask for student participation to summarize the following main points:
 - **History**—During the 1800s, people routinely lost faith in the banking and financial system. Paper money could be printed by states, cities, and private businesses. The Federal Reserve Act was passed in 1913 to create a safer and more stable monetary and banking system.
 - **Structure**—The Federal Reserve is a "decentralized central bank" with both private and public elements operating independently within the government. The Board of Governors of the Federal Reserve is a government agency. The 12 Federal Reserve Banks are not government agencies; they represent the private component of the Fed.
 - **Monetary Policy**—The primary focus of monetary policy is price stability. The body that is charged with setting monetary policy is the Federal Open Market Committee, which regulates the amount of money and credit in the economy.
 - **Financial Services**—The Federal Reserve is often called "the bankers' bank" because it provides financial institutions with high quality currency and coin, processes checks and electronic payments, and encourages new payment technologies.
 - **Bank Supervision**—To enhance public confidence in banks, the Fed promotes the safety and soundness of the banking system. Bank examiners analyze financial records, risk, and compliance and can require banks to take corrective action if necessary.
 - **The Fed Today**—As banking practices and laws have evolved, the Fed has adapted to these changes by helping to write additional banking laws and incorporate new technologies. Emerging democracies have used the Fed as a model when modifying their central banks.

EXTENDING THE LESSON:

Have students visit the FED101 website at: <http://www.kc.frb.org/fed101/policy/> to learn more about the role of the Fed in the U.S. economy and take an on-line quiz.

DISCUSSION POINT:

Myth:

The Federal Reserve Act was passed illegally under a cloak of secrecy and was started by an elite group of private bankers.

REALITY:

The Federal Reserve System was created by the Federal Reserve Act and signed into law by President Woodrow Wilson on December 23, 1913. Although the Act was passed in the final days of the legislative session, it had been debated for some time in earlier versions. Because the regional Federal Reserve Banks are privately owned, and most of their directors are chosen by their stockholders, it is common to hear that control of the Fed is in the hands of elite bankers. However, individuals do not own stock in Federal Reserve Banks. The stock is held only by banks that are members of the system. Ownership and membership are synonymous.

QUESTIONS AND ANSWERS FOR *THE FED TODAY* VIDEO

HISTORY:

People Lacked Confidence in Money and Banking during the 1800s

QUESTION:

Who was allowed to issue paper money during the 1800s?

ANSWER:

QUESTION:

Why did some people lose faith in the banking system before the Federal Reserve System was in place?

ANSWER:

QUESTION:

When was the Federal Reserve Act passed, and which U.S. President signed it into law?

ANSWER:

STRUCTURE:

The Federal Reserve is a System Comprised of Regional and National Components

QUESTION:

Why is the Fed sometimes called a decentralized central bank that's both public and private?

ANSWER:

QUESTION:

What are the "checks and balances" in place when a Fed governor is appointed to the Board of Governors?

ANSWER:

QUESTION:

What are the three primary roles of the 12 Federal Reserve Banks?

ANSWER:

MONETARY POLICY:

The Fed's Primary Goal is Price Stability

QUESTION:

What is the primary focus of monetary policy?

ANSWER:

QUESTION:

What decision does the Federal Open Market Committee make when it meets?

ANSWER:

QUESTION:

According to *The Fed Today* video, what are the economic conditions that may lead to inflation?

ANSWER:

BANK SUPERVISION:

The Fed Promotes a Safe and Sound Banking System

QUESTION:

Who establishes the laws that govern the supervision and regulation of banking institutions that operate in the U.S.?

ANSWER:

QUESTION:

Why does the Fed attempt to make banks both safe and sound?

ANSWER:

QUESTION:

What do Federal Reserve bank examiners analyze when they examine a bank?

ANSWER:

FINANCIAL SERVICES:

The Fed Helps to Maintain a Reliable Payments System

QUESTION:

Why is it so important that the Fed play a vital role in the U.S. payments system?

ANSWER:

QUESTION:

Why is the Fed often called “the bankers’ bank?”

ANSWER:

QUESTION:

Why is the Fed considered to be the government’s bank?

ANSWER:

THE FED TODAY:

The Fed Adapts to a Changing Financial System

QUESTION:

What is the mission of the Federal Reserve, and what is its short name?

ANSWER:

QUESTION:

How have Federal Reserve Banks adapted to be able to process more than 20 billion checks per year?

ANSWER:

QUESTION:

Why are other central banks from around the world interested in how the Federal Reserve operates?

ANSWER:

QUESTIONS AND ANSWERS FOR *THE FED TODAY* VIDEO**HISTORY:*****People Lacked Confidence in Money and Banking during the 1800s***

QUESTION:

Who was allowed to issue paper money during the 1800s?

SUGGESTED ANSWER:

Over 30,000 different notes were issued by states, banks, and private companies during much of the 1800s.

QUESTION:

Why did some people lose faith in the banking system before the Federal Reserve System was in place?

SUGGESTED ANSWER:

Sometimes banks did not have enough money to pay depositors, and they had to temporarily close their doors or permanently go out of business.

QUESTION:

When was the Federal Reserve Act passed, and which U.S. President signed it into law?

SUGGESTED ANSWER:

In 1913 the Federal Reserve Act was signed into law by President Woodrow Wilson.

STRUCTURE:***The Federal Reserve is a System Comprised of Regional and National Components***

QUESTION:

Why is the Fed sometimes called a decentralized central bank that's both public and private?

SUGGESTED ANSWER:

The Federal Reserve consists of two main entities—the Board of Governors and the 12 Federal Reserve Banks. The Board of Governors is a public agency. The 12 Federal Reserve Banks and their boards of directors represent the private component of the Fed.

QUESTION:

What are the “checks and balances” in place when a Fed governor is appointed to the Board of Governors?

SUGGESTED ANSWER:

Each of the seven members of the Board of Governors is nominated by the President, but must also be confirmed by the Senate.

QUESTION:

What are the three primary roles of the 12 Federal Reserve Banks?

SUGGESTED ANSWER:

The three primary roles of Federal Reserve Banks are providing economic analysis, delivering financial services to banks, and supervising banks.

MONETARY POLICY:

The Fed's Primary Goal is Price Stability

QUESTION:

What is the primary focus of monetary policy?

SUGGESTED ANSWER:

Price stability is the primary focus of monetary policy.

QUESTION:

What decision does the Federal Open Market Committee make when it meets?

SUGGESTED ANSWER:

The Federal Open Market Committee regulates the amount of money and credit that is available for the economy.

QUESTION:

According to *The Fed Today* video, what are the economic conditions that may lead to inflation?

SUGGESTED ANSWER:

Inflation may result when the supply of money grows faster than the production of goods and services.

BANK SUPERVISION:

The Fed Promotes a Safe and Sound Banking System

QUESTION:

Who establishes the laws that govern the supervision and regulation of banking institutions that operate in the U.S.?

SUGGESTED ANSWER:

Congress establishes the laws, and the Federal Reserve, along with other Federal and state regulators, makes sure these rules are followed.

QUESTION:

Why does the Fed attempt to make banks both safe and sound?

SUGGESTED ANSWER:

Stable and healthy banks enhance public confidence in the financial system.

QUESTION:

What do Federal Reserve bank examiners analyze when they examine a bank?

SUGGESTED ANSWER:

Federal Reserve Bank examiners review financial records, look for potential risks in bank investments, and ensure that banks follow applicable banking regulations.

FINANCIAL SERVICES:***The Fed Helps to Maintain a Reliable Payments System***

QUESTION:

Why is it so important that the Fed play a vital role in the U.S. payments system?

SUGGESTED ANSWER:

The transfer of funds from one bank to another is a key component of keeping banks safe and reliable.

QUESTION:

Why is the Fed often called “the bankers’ bank?”

SUGGESTED ANSWER:

Because the Fed provides banks with financial services, such as check processing, electronic payments, and new currency and coin.

QUESTION:

Why is the Fed considered to be the government’s bank?

SUGGESTED ANSWER:

The Federal Reserve maintains the U.S. Treasury’s account, facilitates the collection of federal taxes, and issues and redeems Treasury securities.

THE FED TODAY:***The Fed Adapts to a Changing Financial System***

QUESTION:

What is the mission of the Federal Reserve, and what is its short name?

SUGGESTED ANSWER:

The mission of the Federal Reserve, often referred to as the Fed, is to maintain public confidence in our nation’s monetary and banking system.

QUESTION:

How have Federal Reserve Banks adapted to be able to process more than 20 billion checks per year?

SUGGESTED ANSWER:

New processing and computer technologies have enabled the Fed to adapt to a constantly changing banking industry.

QUESTION:

Why are other central banks from around the world interested in how the Federal Reserve operates?

SUGGESTED ANSWER:

Some emerging democracies from around the world are using the Fed as a model as they improve their own central banks.

