



Name: \_\_\_\_\_

Date: \_\_\_\_\_

## CHAPTER 10, SECTION 3

### Just the Facts Handout

#### What Is the Federal Reserve System?

The **Federal Reserve System (the Fed)** began operation in 1914. The Fed is a central bank. This means that it is the chief authority on money in the country. Today, the principal components of the Federal Reserve System are the Board of Governors and the 12 Federal Reserve district banks.

#### Board of Governors

The **Board of Governors of the Federal Reserve System** controls and coordinates the Fed's activities. The board is made up of seven members. Each member is appointed to a 14-year term by the president of the United States with Senate approval. The president also names one member as chairperson of the board for a four-year term.

#### The 12 Federal Reserve District Banks

The United States is broken up into 12 Federal Reserve districts. Exhibit 10-3 on page 271 of your textbook shows the boundaries of these districts. Each district has a Federal Reserve district bank. Each district bank has a president.

#### An Important Committee: The FOMC

The major policy-making group within the Fed is the **Federal Open Market Committee (FOMC)**. The FOMC is made up of 12 members. Seven of the 12 members are the members of the Board of Governors. The remaining five members are presidents of the Federal Reserve district banks.

#### What Does the Fed Do?

The Fed has six major responsibilities:

1. The Fed controls the money supply.
2. The Fed supplies the economy with paper money, that is, Federal Reserve notes. Federal Reserve notes are printed at the Bureau of Engraving and Printing in Washington, D.C. The notes are issued to the 12 Federal Reserve district banks. These banks give the money to the public and to the banks in their district.
3. The Fed holds bank reserves in reserve accounts. You can think of **reserve accounts** as checking accounts. Each commercial bank that is a member of the Federal Reserve System has to have a reserve account with its Federal Reserve district bank. For example, a commercial bank in Durham, North Carolina, must have a reserve account with the fifth Federal Reserve district bank in Richmond, Virginia. (The locations of the 12 Federal Reserve district banks are shown in Exhibit 10-3 on page 271 of your textbook.)
4. The Fed provides check-clearing services. The process by which funds change hands when checks are written is called the check-clearing process. The Fed plays a major role in this process. An example helps explain how this process works. (See Exhibit 10-4 on page 273 of your textbook.)
  - a. Harry writes a \$1,000 check and sends it to Ursula.
  - b. Ursula receives the check, takes it to her local bank, and deposits it into her checking account. The balance in her account rises by \$1,000.

- c. Ursula's bank sends the check to its Federal Reserve district bank. The reserve bank increases the reserve account of Ursula's bank by \$1,000 and decreases the reserve account of Harry's bank by \$1,000.
  - d. The reserve bank sends the check to Harry's bank, which then reduces the balance in Harry's checking account by \$1,000.
5. The Fed supervises member banks. Without warning, the Fed can examine the books of member commercial banks. The Fed will look at what kind of loans a bank made, whether it followed bank regulations, how accurate its records are, and so on.
6. The Fed serves as the lender of last resort. This means that the Fed may lend banks money when no one else will.

**Answer questions 1–4 in the Section 3 Assessment on page 273 of your textbook.**