

The STORY of the
**FEDERAL
RESERVE
SYSTEM**



FEDERAL RESERVE BANK OF NEW YORK

WAY, WAY OUT, AT THE EDGE OF THE UNIVERSE...
THE PLANET NOVUS IS EXPERIENCING ITS FIRST
ECONOMIC CRISIS.

AFTER AN UNFORESEEN ICE CREAM SETBACK, A
LOCAL BUSINESS WAS UNABLE TO REPAY ITS LOAN...



...WHICH PUT STRESS ON THE
BANK THAT MADE THE LOAN...



...WHICH LED TO A PANIC! EVERYONE ON
NOVUS RAN TO TAKE THEIR MONEY OUT
OF THE BANK AT THE SAME TIME.



IF WE TAKE ALL THE CASH
FROM OUR BANKS, THE WHOLE
SYSTEM WILL COLLAPSE.

PEOPLE WILL LOSE
EVERYTHING THEY
HAVE WORKED SO
HARD FOR!



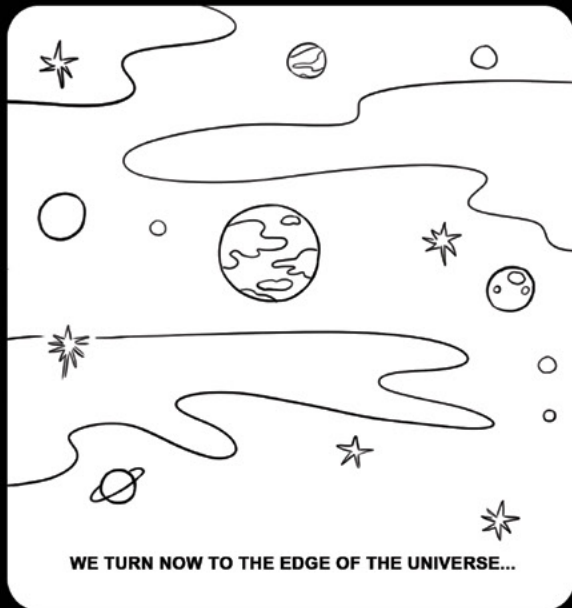
INSTEAD, THE CITIZENS OF NOVUS DECIDED
TO COME TOGETHER AND CREATE A CENTRAL
BANK TO LOAN MONEY TO OTHER BANKS—TO
ACT AS A LENDER OF LAST RESORT.*



THIS NEW CENTRAL BANK OF NOVUS WOULD HELP
STRUGGLING BANKS CONTINUE TO LEND AND PAY
DEPOSITORS BACK—AVOIDING CATASTROPHE.

*A LENDER OF LAST RESORT, USUALLY A COUNTRY'S CENTRAL BANK, PROVIDES LOANS TO BANKS AND OTHER ELIGIBLE INSTITUTIONS THAT ARE EXPERIENCING TEMPORARY FINANCIAL PROBLEMS BUT ARE CONSIDERED FUNDAMENTALLY SOUND, OR ABLE TO PAY THEIR DEBTS.

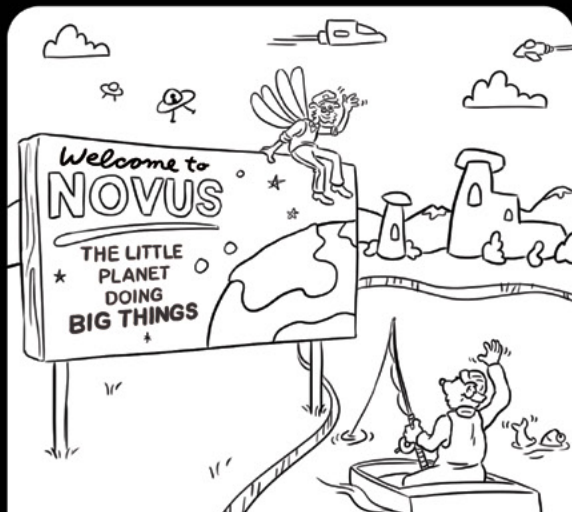




WE TURN NOW TO THE EDGE OF THE UNIVERSE...



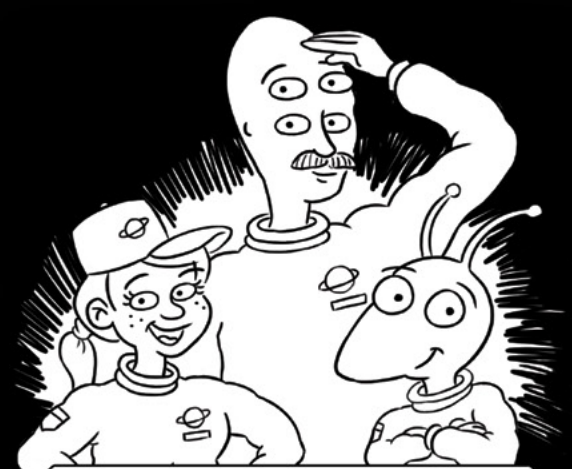
...WHERE THE CITIZENS OF A PLUCKY LITTLE PLANET CALLED "NOVUS" ARE GETTING THEIR FINANCIAL ACT TOGETHER BY FORMING THE PLANET'S VERY OWN CENTRAL BANK!



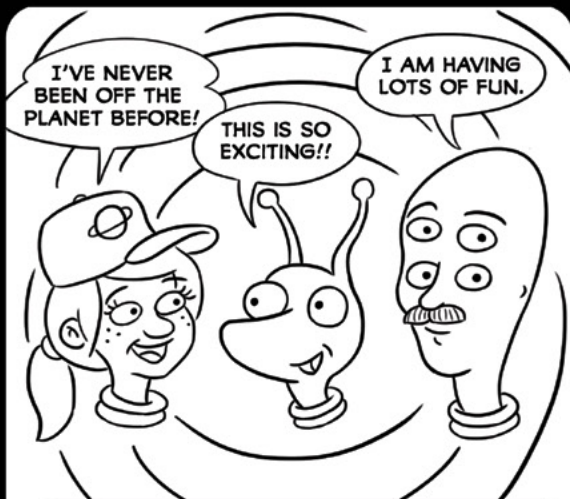
TO LEARN HOW TO DO THE JOB RIGHT, THEY ARE SENDING THREE OF THEIR MOST INTREPID CITIZENS ACROSS THE GALAXY ON A FACT-FINDING MISSION!



AND WHAT FEARLESS DAREDEVILS WOULD VOLUNTEER FOR SUCH A JOURNEY?



FLORA AND GLIX, TWO YOUNG BUSINESS OWNERS. AND THAT TALL FELLOW THERE—HIS NAME IS RALLO. WE'RE TOLD HE'S A BANKER AND AN ARTIST... NO WONDER HE NEEDS FOUR EYES!

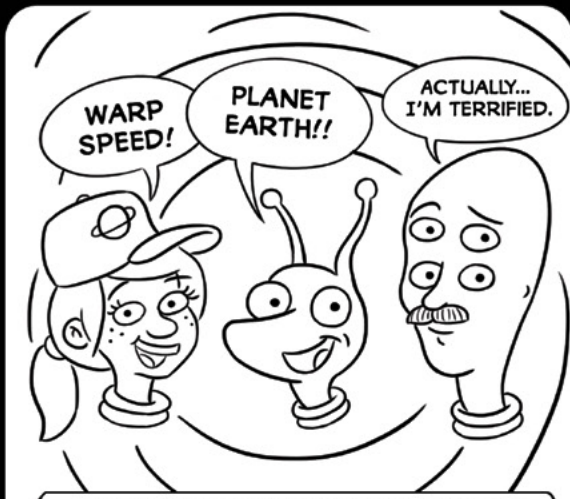


I'VE NEVER BEEN OFF THE PLANET BEFORE!

THIS IS SO EXCITING!!

I AM HAVING LOTS OF FUN.

THE THREE ADVENTURERS WILL TRAVEL AT WARP SPEED, CLEAR ACROSS THE UNIVERSE TO PLANET EARTH AND THE UNITED STATES OF AMERICA.



WARP SPEED!

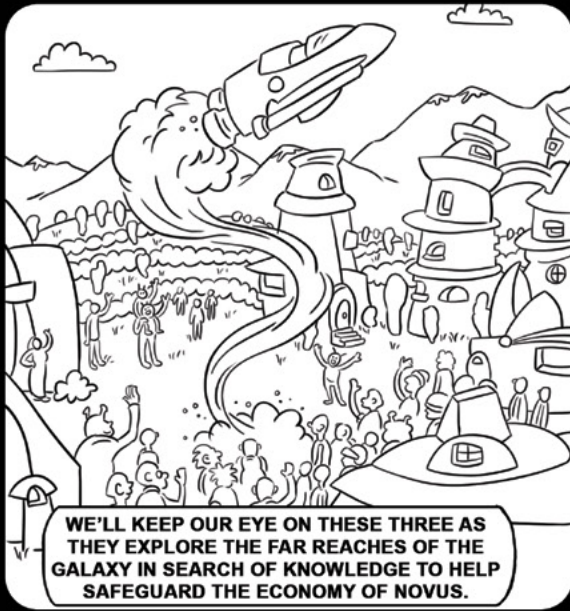
PLANET EARTH!!

ACTUALLY... I'M TERRIFIED.

THE UNITED STATES HAS A CENTRAL BANKING SYSTEM WITH GOALS SIMILAR TO THOSE OF THE CITIZENS OF NOVUS--SO FLORA, GLIX, AND RALLO WILL BE EXPLORING THE SYSTEM UP CLOSE.



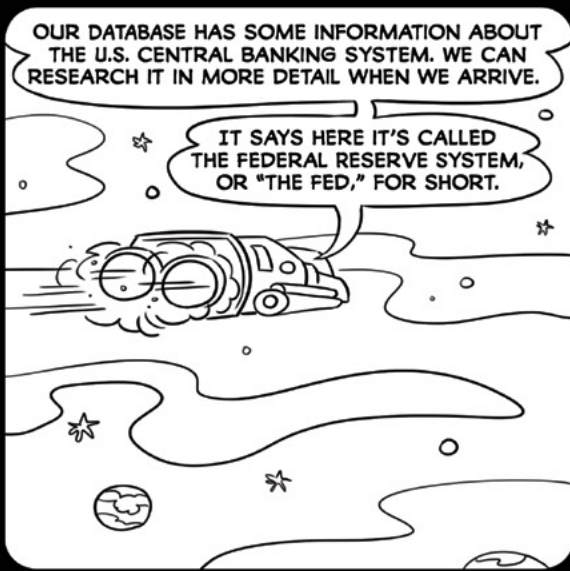
SAFE TRAVELS, BRAVE SPACE VOYAGERS!



WE'LL KEEP OUR EYE ON THESE THREE AS THEY EXPLORE THE FAR REACHES OF THE GALAXY IN SEARCH OF KNOWLEDGE TO HELP SAFEGUARD THE ECONOMY OF NOVUS.

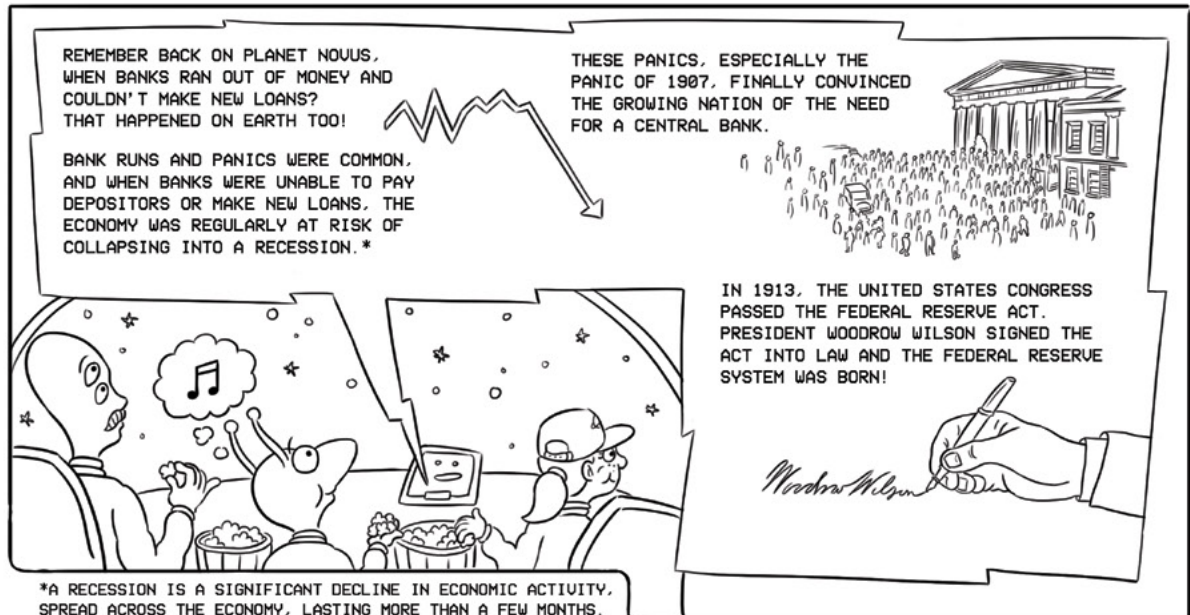
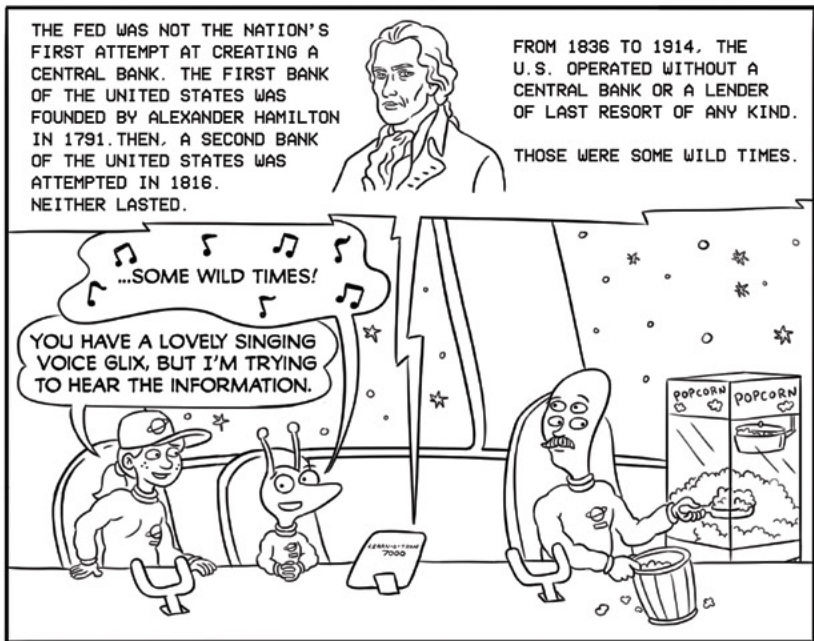
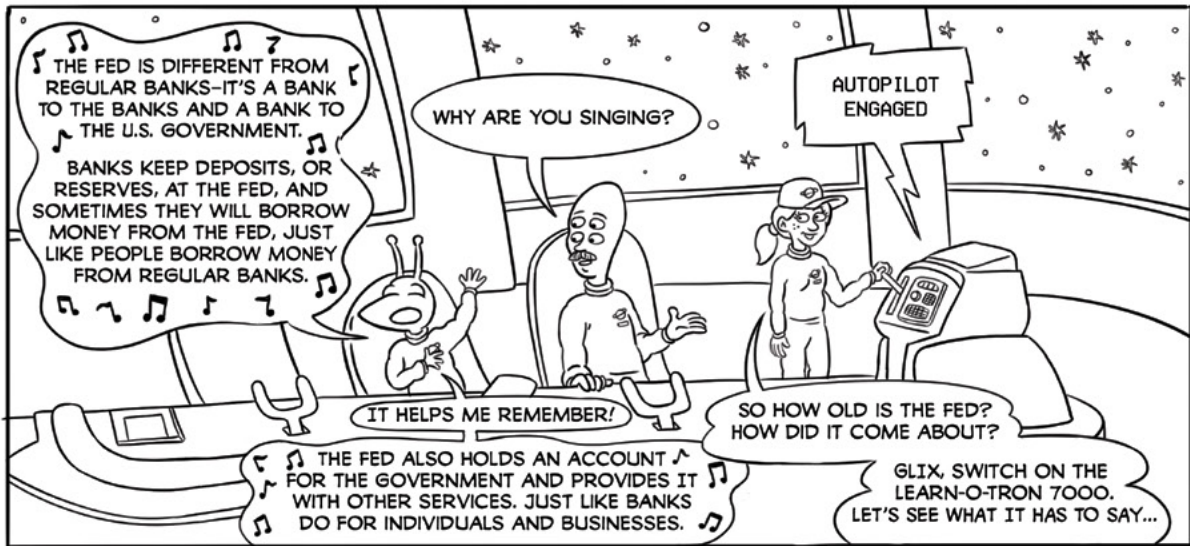


NEXT STOP...
PLANET EARTH!



OUR DATABASE HAS SOME INFORMATION ABOUT THE U.S. CENTRAL BANKING SYSTEM. WE CAN RESEARCH IT IN MORE DETAIL WHEN WE ARRIVE.

IT SAYS HERE IT'S CALLED THE FEDERAL RESERVE SYSTEM, OR "THE FED," FOR SHORT.



ALTHOUGH THE FED IS CALLED A CENTRAL BANK, IT IS ACTUALLY DECENTRALIZED. THAT MEANS, INSTEAD OF ESTABLISHING JUST ONE BIG BANK LOCATED IN THE NATION'S CAPITAL, THE UNITED STATES WAS DIVIDED INTO TWELVE DISTRICTS, EACH WITH ITS OWN RESERVE BANK. THIS SYSTEM IS DIFFERENT FROM OTHER CENTRAL BANKS OF MANY OTHER NATIONS ON PLANET EARTH.



THE BOUNDARIES OF THE TWELVE DISTRICTS WERE BASED ON TRADING PATTERNS (THE EXCHANGE OF GOODS AND SERVICES) AND OTHER ECONOMIC FACTORS AT THE TIME.

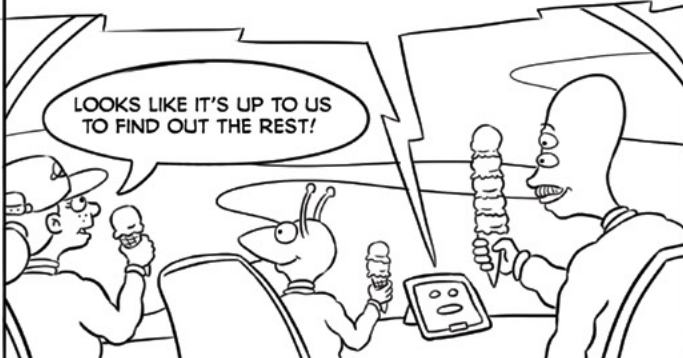
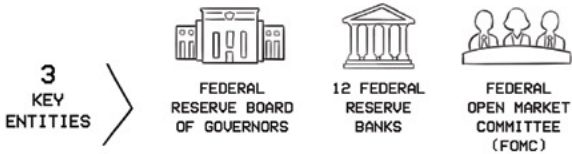
THE CREATORS OF THE FEDERAL RESERVE SYSTEM REALIZED THAT DIFFERENT REGIONS OF THE COUNTRY DID NOT FACE THE SAME ECONOMIC CONDITIONS. "DECENTRALIZING" THE CENTRAL BANK INTO TWELVE DISTRICTS HELPED TO ENSURE MORE VOICES WERE REPRESENTED.

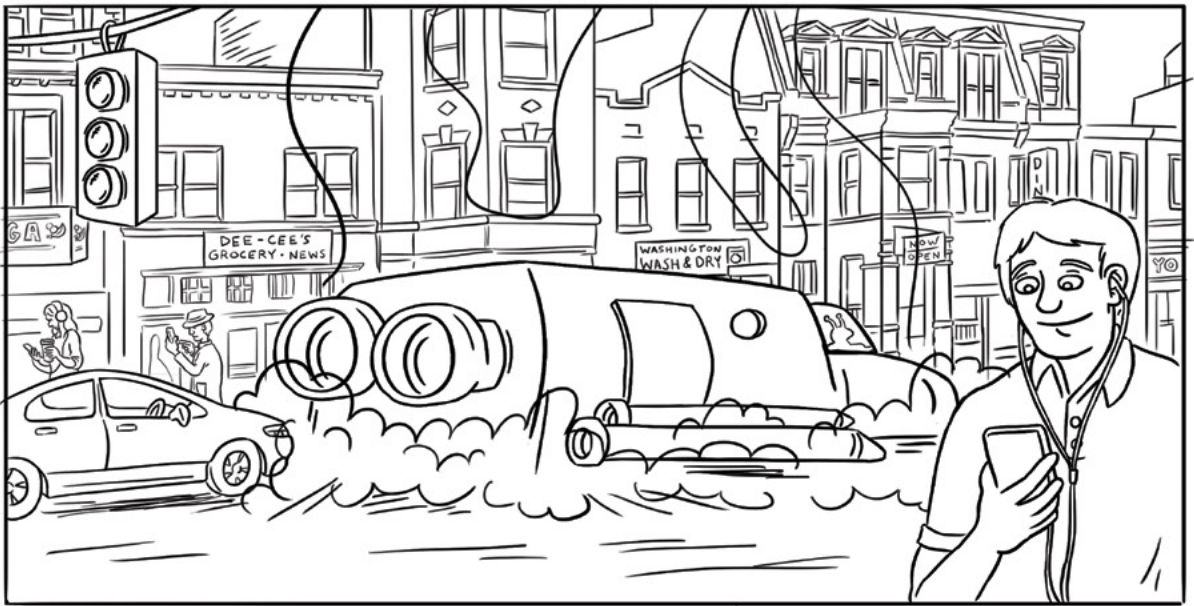
TODAY, THE UNITED STATES FEDERAL RESERVE SYSTEM IS RESPONSIBLE FOR:

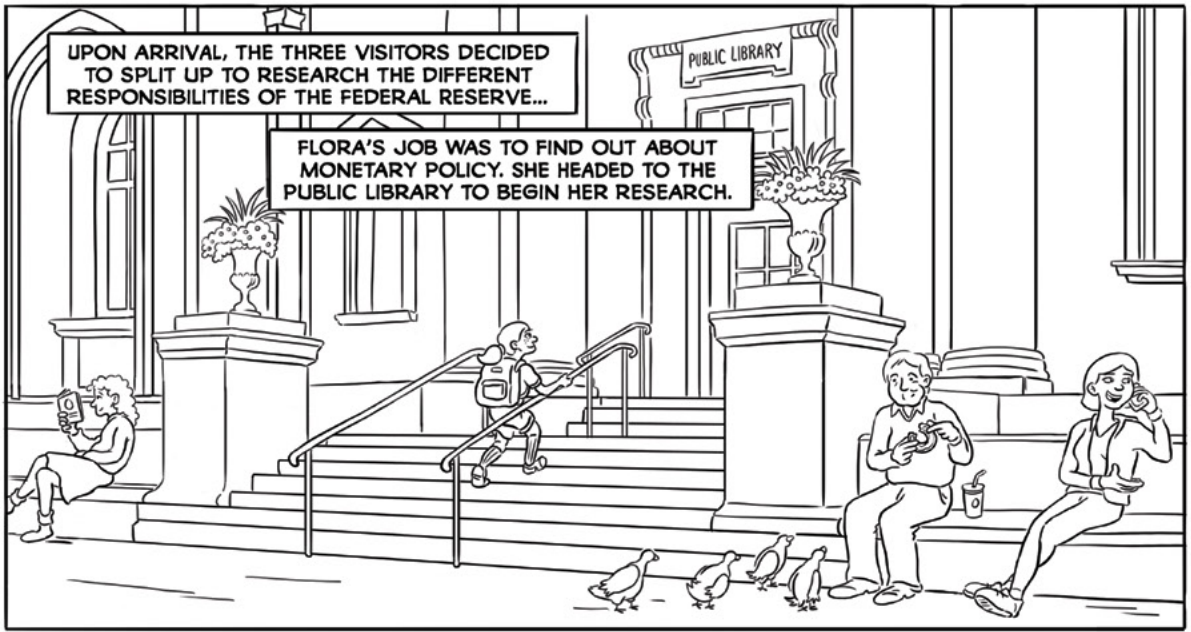
1. STUDYING THE NATION'S ECONOMIC CONDITIONS AND CONDUCTING MONETARY POLICY;
2. SUPERVISING BANKS; AND
3. PROVIDING FINANCIAL SERVICES, LIKE CIRCULATING CURRENCY AND COIN, AND PROCESSING CHECKS.



THE FINAL PIECE OF INFORMATION WE HAVE IN OUR DATABASE IS THIS DIAGRAM—THE STRUCTURE OF THE FEDERAL RESERVE SYSTEM:







UPON ARRIVAL, THE THREE VISITORS DECIDED TO SPLIT UP TO RESEARCH THE DIFFERENT RESPONSIBILITIES OF THE FEDERAL RESERVE...

FLORA'S JOB WAS TO FIND OUT ABOUT MONETARY POLICY. SHE HEADED TO THE PUBLIC LIBRARY TO BEGIN HER RESEARCH.



RALLO WOULD RESEARCH BANK SUPERVISION.

PROVIDED HE DIDN'T GET TOO DISTRACTED.

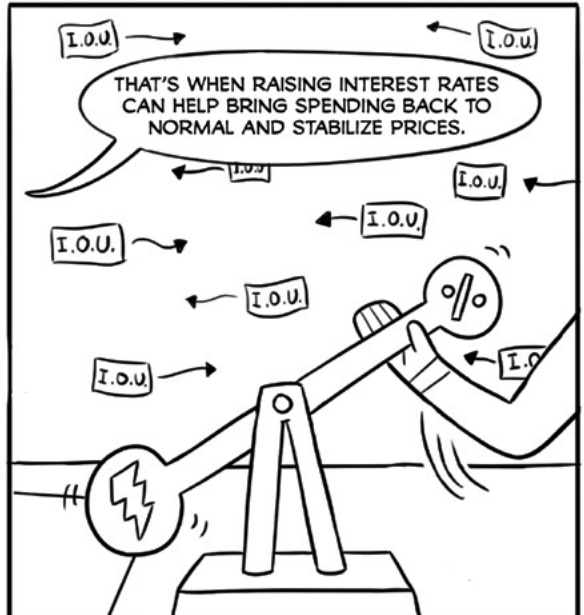
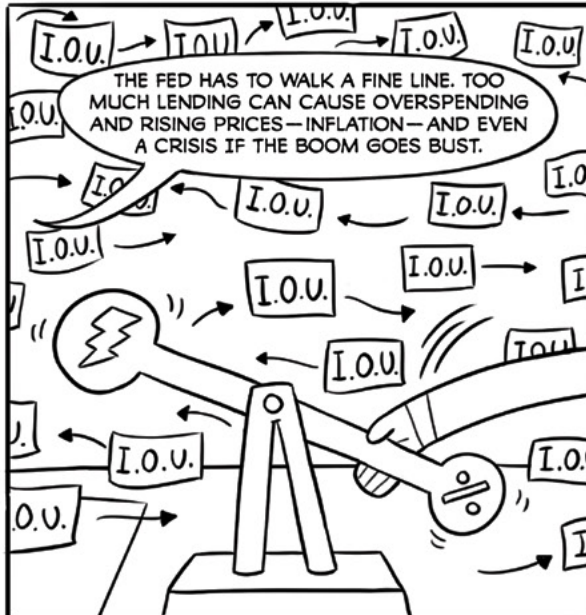
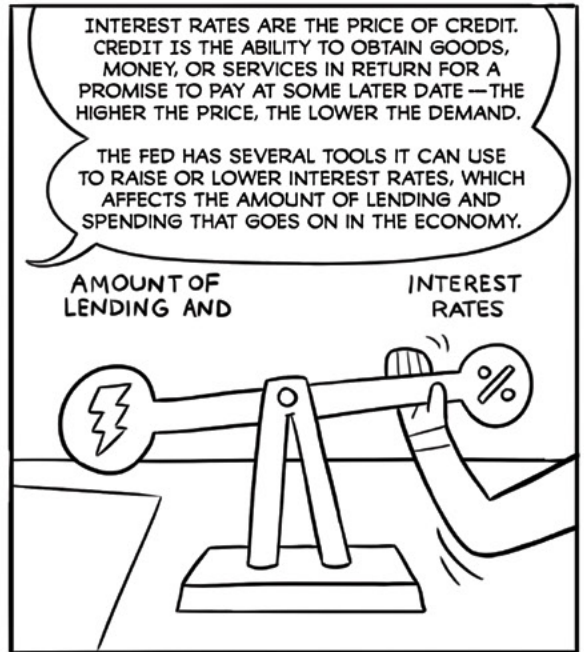


AND GLIX WOULD LEARN ALL ABOUT THE FINANCIAL SERVICES PROVIDED BY THE FEDERAL RESERVE.

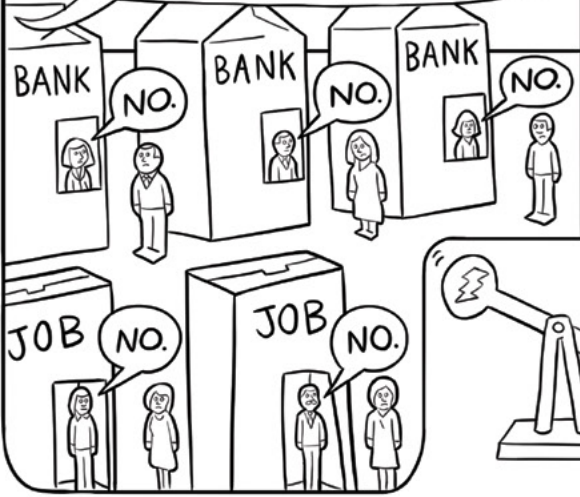
HE WANTED TO BEGIN HIS RESEARCH AT A BOOKSTORE...



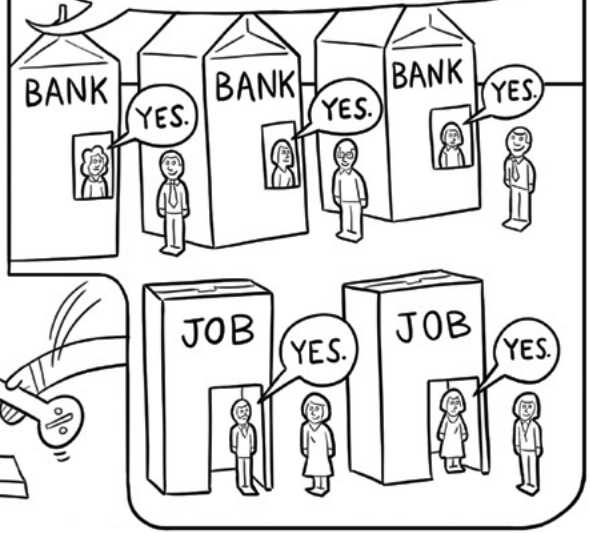
HMM, BLENDING IN WON'T BE SO EASY AFTER ALL. I MIGHT HAVE TO GET CREATIVE.



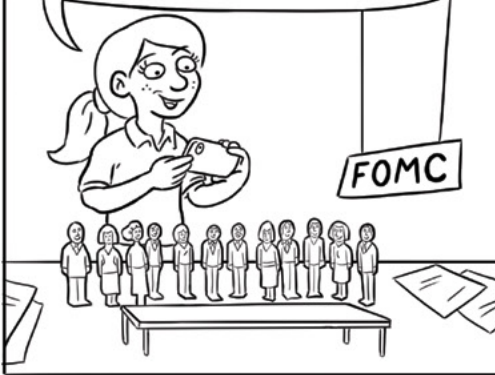
...BUT TOO LITTLE LENDING AND SPENDING CAN LEAD TO THE OPPOSITE KIND OF ECONOMIC PROBLEM—A RECESSION. THAT'S WHEN PEOPLE WANT TO WORK BUT CAN'T FIND JOBS AND PRICES FALL—A FALL IN PRICES IS CALLED DEFLATION.



SOMETIMES LOWERING INTEREST RATES IS JUST THE ANSWER TO GET THE ECONOMY MOVING AGAIN.



OPEN MARKET OPERATIONS ARE THE FED'S KEY MONETARY POLICY TOOL. THE MEMBERS OF THE FEDERAL OPEN MARKET COMMITTEE (FOMC) COME FROM ACROSS THE COUNTRY TO MEET IN WASHINGTON, D.C.



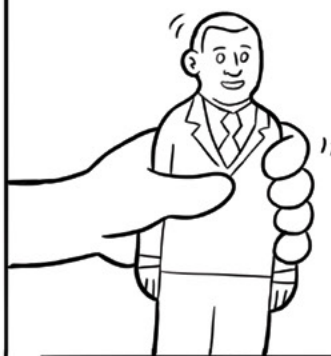
THEY GATHER LOTS OF DATA ON HOUSEHOLDS AND BUSINESSES TO DECIDE WHETHER TO INCREASE OR DECREASE INTEREST RATES IN THE ECONOMY.



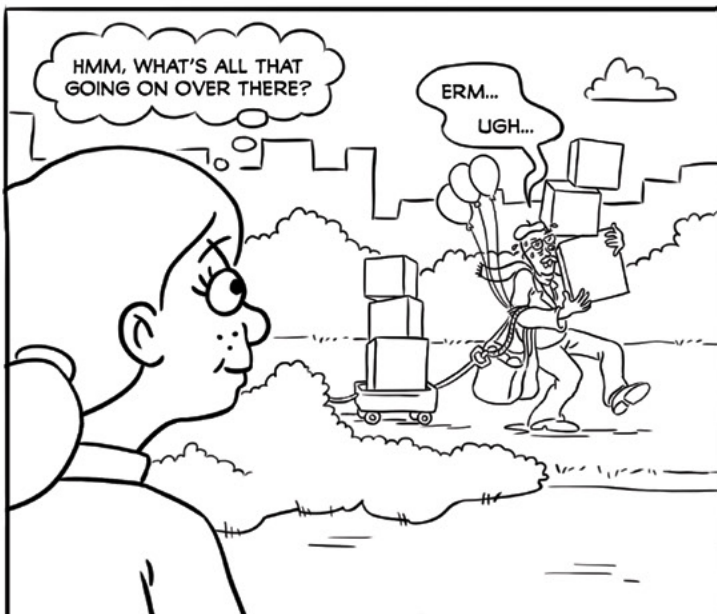
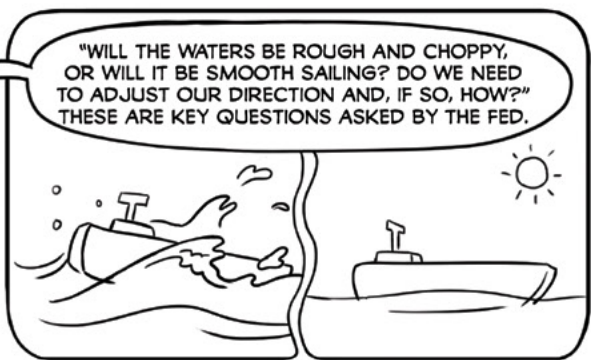
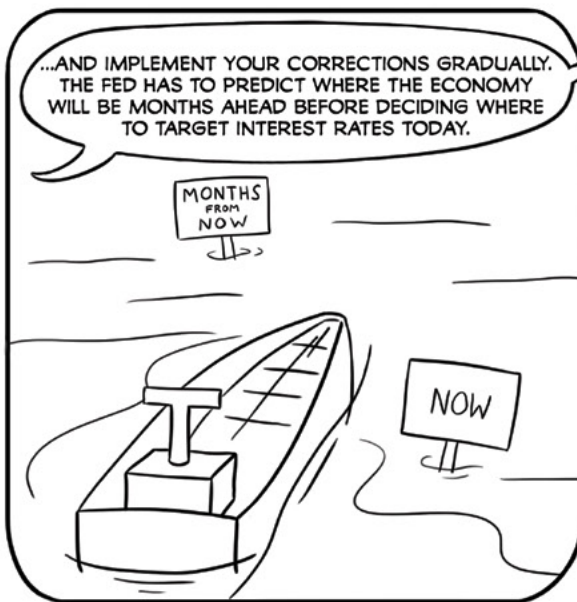
THE ECONOMY'S TOO SLOW; WORKERS ARE BEING LAID OFF AND PRICES ARE FALLING. LET'S STIMULATE THE ECONOMY BY LOWERING INTEREST RATES.

NOW THE ECONOMY'S OVERHEATING AND PRICES ARE RISING. MAYBE WE SHOULD SLOW THINGS DOWN.

TIME TO RAISE INTEREST RATES.* THAT WILL HELP KEEP THE ECONOMY IN BALANCE.



* TO RAISE OR LOWER INTEREST RATES, THE FOMC ADJUSTS ITS TARGET RANGE FOR THE FEDERAL FUNDS RATE, WHICH IS THE INTEREST RATE THAT BANKS CHARGE EACH OTHER FOR OVERNIGHT LOANS.





PHEW!



I'M DEEP IN THE HEART OF PRODUCTION. MY PRESENTATION IS GOING TO BE A MOVIE MUSICAL ON A CENTRAL BANK'S ROLE IN BANK SUPERVISION. IT WILL BE, QUITE SIMPLY, AMAZING.

SOUNDS EXCITING — WHEN WILL IT BE FINISHED?



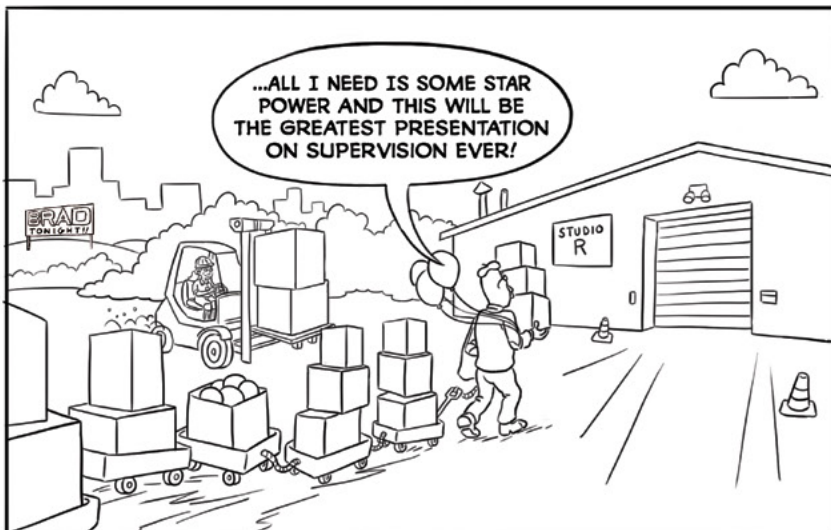
I'VE RENTED A WAREHOUSE AND CONSTRUCTED SOME AWESOME SETS. WE HAVE A WONDERFUL CAST WHO WILL BE FITTED IN THE MOST EXCITING COSTUMES...

THERE WILL BE MUSIC! THERE WILL BE LIGHTS! FILMING BEGINS THIS EVENING!



DO YOU NEED A HAND WITH ANY OF THIS?

OH, THAT WOULD BE GREAT. YOU DON'T HAPPEN TO KNOW HOW TO OPERATE A FORKLIFT, DO YOU?



...ALL I NEED IS SOME STAR POWER AND THIS WILL BE THE GREATEST PRESENTATION ON SUPERVISION EVER!



WOW, RALLO!

SUPERVISION



ABOUT HOW THE FED HELPS ESTABLISH SAFE AND SOUND BANKING PRACTICES THAT ENSURE THE FLOW OF CREDIT, WHICH ENABLES BUSINESSES AND HOUSEHOLDS TO BORROW MONEY WHEN THEY NEED IT.



SUPERVISORS FROM THE FED EXAMINE BANKS REGULARLY TO HELP ENSURE THAT THEY ARE BEING MANAGED EFFECTIVELY AND ARE NOT TAKING TOO MUCH RISK.



THIS HELPS DETERMINE HOW WELL THE BANKS CAN WITHSTAND LOSSES, OR EVEN A FINANCIAL CRISIS. AND, AS DIFFERENT EVENTS UNFOLD, THE FED CAN RECOMMEND CHANGES OR NEW REGULATIONS.



AS WE LEARNED BACK ON THE SPACESHIP, IN THE YEARS BEFORE THE FEDERAL RESERVE, BANK RUNS AND FINANCIAL PANICS HAPPENED FREQUENTLY. THEY OFTEN DISRUPTED THE ECONOMY AND PREVENTED PEOPLE AND BUSINESSES FROM GETTING THE MONEY AND CREDIT THEY NEEDED.



BUT SUPERVISION CAN HELP AVOID SUCH CATASTROPHIC EVENTS.



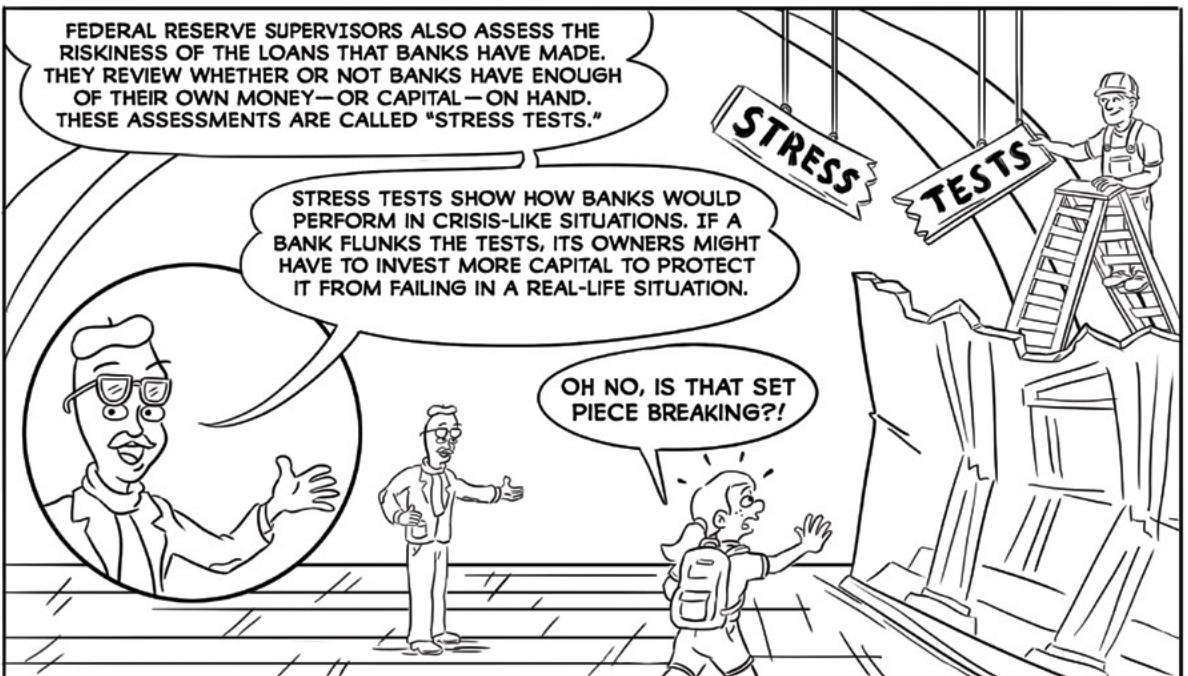
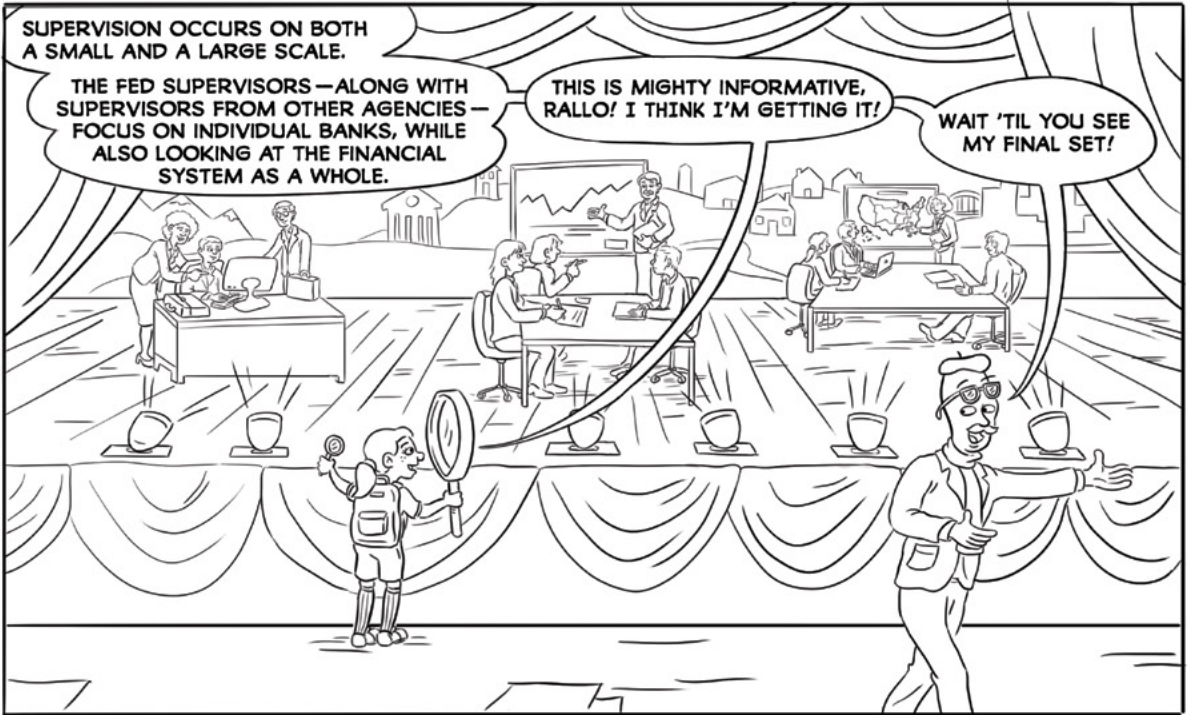
CERTAIN RULES ARE ESTABLISHED THAT BANKS HAVE TO FOLLOW...



AND THEN SUPERVISION MAKES SURE THE BANKS ARE FOLLOWING THOSE RULES?

YES! SO THAT THE BANKS ARE OPERATING SAFELY AND SOUNDLY.







DON'T WORRY, THIS IS JUST A TEST!



RALLO, BUDDY, THIS LOOKS LIKE IT'S GOING TO BE A GREAT PRODUCTION!

I SURE HOPE SO... ALL I NEED NOW IS A BIG CELEBRITY TO STAR IN IT!

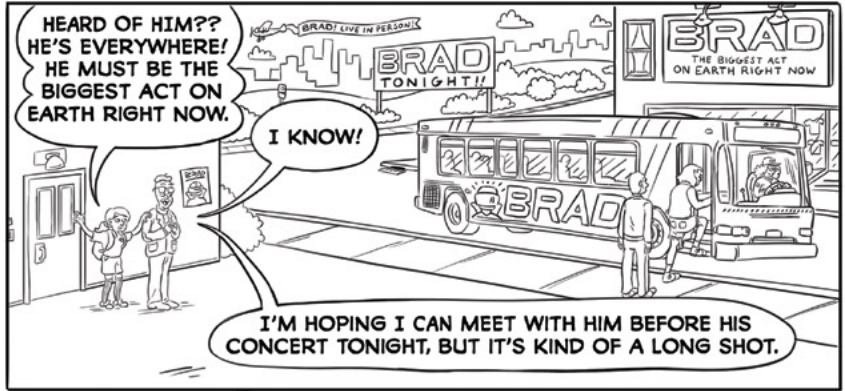
WHO'D YOU HAVE IN MIND?

I WAS THINKING MAYBE... BRAD?



BRAD?!?!

YOU'VE HEARD OF HIM?



HEARD OF HIM?? HE'S EVERYWHERE! HE MUST BE THE BIGGEST ACT ON EARTH RIGHT NOW.

I KNOW!

I'M HOPING I CAN MEET WITH HIM BEFORE HIS CONCERT TONIGHT, BUT IT'S KIND OF A LONG SHOT.

LATER...



HRRMM...



IS THERE A MR. RALLO HERE? BRAD HAS AGREED TO MEET WITH A MR. RALLO.

HE HAS?!



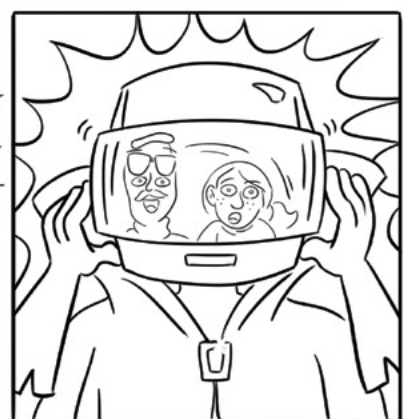
WAIT, RALLO. WHAT ARE YOU GOING TO SAY TO HIM?

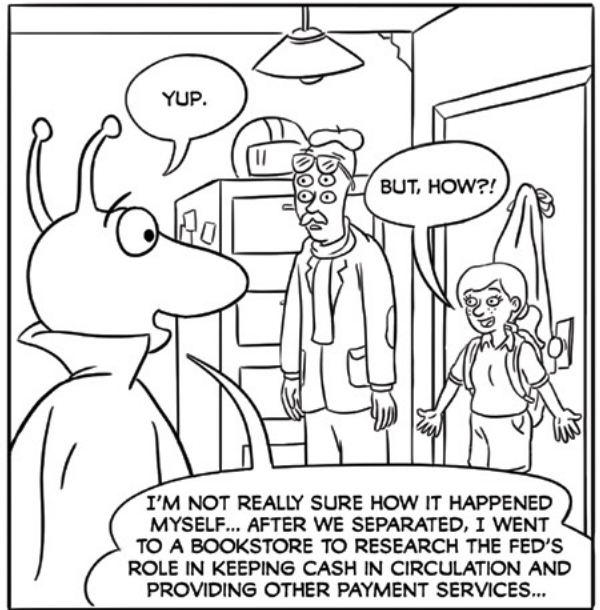
GULP GOOD QUESTION. I HAVE NO IDEA!

RIGHT THIS WAY, PLEASE.



WOW...



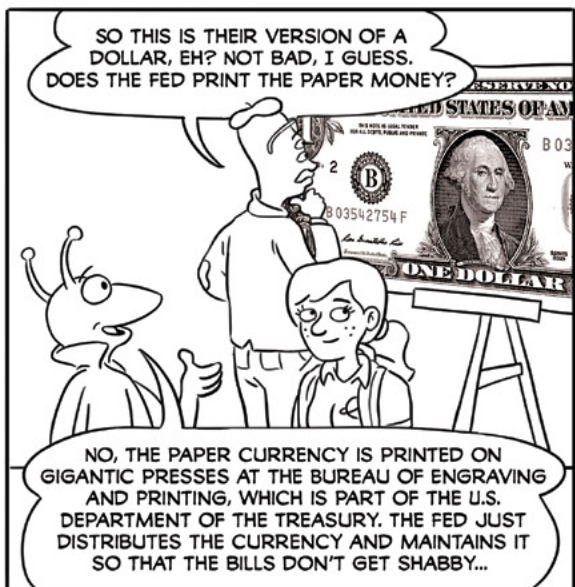






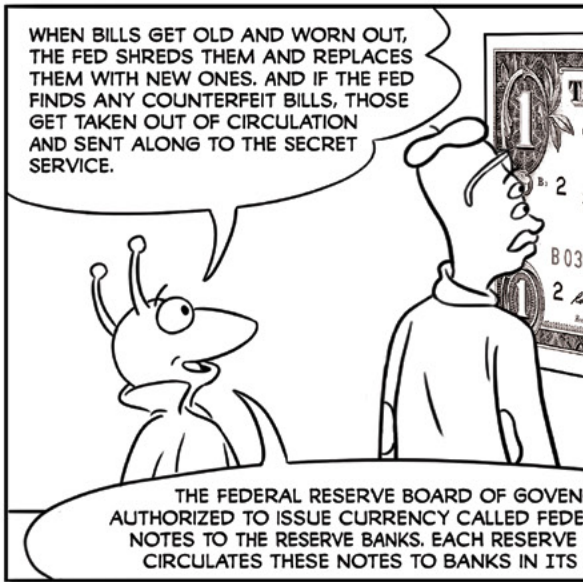
BRAD AND NOW THEY PUT ME ON SHIRTS AND HATS AND MADE THESE TINY VERSIONS OF ME TO TAKE HOME WITH THEM.

WOW, EARTH IS... QUITE A PLACE.



SO THIS IS THEIR VERSION OF A DOLLAR, EH? NOT BAD, I GUESS. DOES THE FED PRINT THE PAPER MONEY?

NO, THE PAPER CURRENCY IS PRINTED ON GIGANTIC PRESSES AT THE BUREAU OF ENGRAVING AND PRINTING, WHICH IS PART OF THE U.S. DEPARTMENT OF THE TREASURY. THE FED JUST DISTRIBUTES THE CURRENCY AND MAINTAINS IT SO THAT THE BILLS DON'T GET SHABBY...



WHEN BILLS GET OLD AND WORN OUT, THE FED SHREDS THEM AND REPLACES THEM WITH NEW ONES. AND IF THE FED FINDS ANY COUNTERFEIT BILLS, THOSE GET TAKEN OUT OF CIRCULATION AND SENT ALONG TO THE SECRET SERVICE.

THE FEDERAL RESERVE BOARD OF GOVERNORS IS AUTHORIZED TO ISSUE CURRENCY CALLED FEDERAL RESERVE NOTES TO THE RESERVE BANKS. EACH RESERVE BANK THEN CIRCULATES THESE NOTES TO BANKS IN ITS DISTRICT.



ON THE \$1 BILL, YOU CAN TELL WHICH RESERVE BANK RECEIVED A BILL ISSUED BY THE FEDERAL RESERVE BOARD OF GOVERNORS BY LOOKING AT THE LETTER IN THE SEAL AND AT THE NUMBERS THAT ARE REPEATED IN FOUR PLACES.

THE "B" AND THE "2" ON THIS BILL REFER TO THE FED'S SECOND DISTRICT—THE FEDERAL RESERVE BANK OF NEW YORK.

SPEAKING OF THE NEW YORK FED...

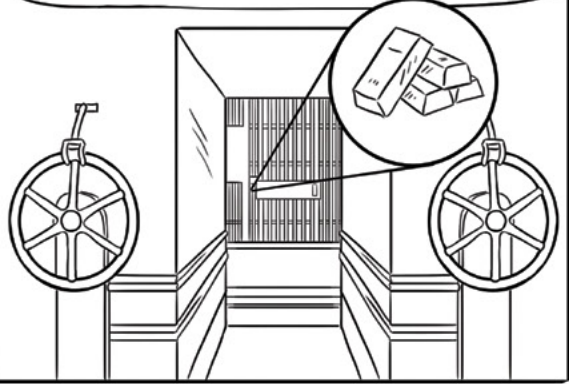
THE NEW YORK FED ALSO IS RESPONSIBLE FOR SOMETHING UNIQUE AMONG THE RESERVE BANKS — SAFEKEEPING GOLD!

FEDERAL RESERVE
BANK OF NEW YORK



DEEP UNDERGROUND, CARVED FROM THE BEDROCK OF NEW YORK CITY, IS ONE OF THE LARGEST GOLD VAULTS ON EARTH!

THE NEW YORK FED STORES GOLD FOR OTHER CENTRAL BANKS, FOREIGN GOVERNMENTS, INTERNATIONAL ORGANIZATIONS, AND THE U.S. TREASURY.



HEY, UH, GLIX—I MEAN, MR. BRAD—DO YOU THINK YOU'D BE WILLING TO SING ONE OF YOUR SONGS IN MY MUSICAL? IT WOULD REALLY HELP ME DURING AWARDS SEASON.

OH, NOW YOU WANT ME TO SING? THAT'S NOT HOW YOU FELT BACK ON THE SHIP... YOU'RE GONNA HAVE TO TALK TO MY AGENT.



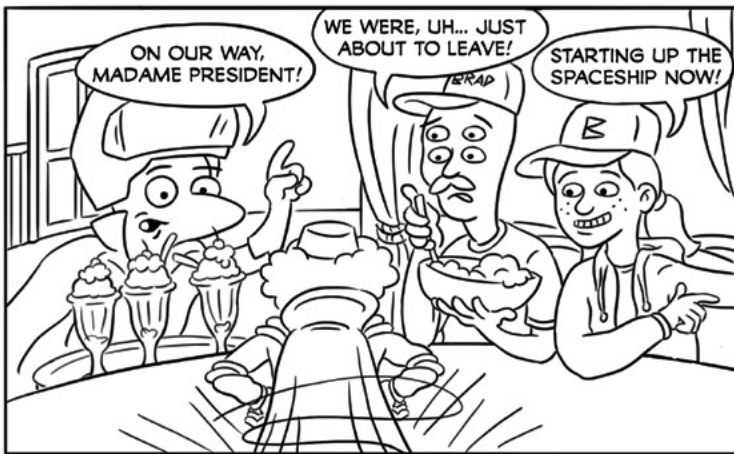
AW, I'M JUST KIDDING. OF COURSE I'LL DO IT!

HOORAY!!



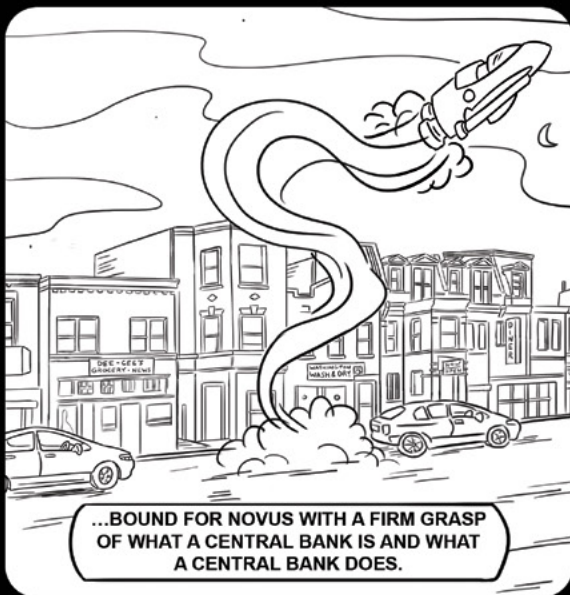
... AND THAT'S THE STORY OF THE FEDERAL RESERVE!
A DECENTRALIZED CENTRAL BANK, CREATED TO KEEP
THE U.S. ECONOMY HEALTHY AND STRONG.







AND WITH THAT, OUR THREE HEROES
BID FAREWELL TO PLANET EARTH...



...BOUND FOR NOVUS WITH A FIRM GRASP
OF WHAT A CENTRAL BANK IS AND WHAT
A CENTRAL BANK DOES.



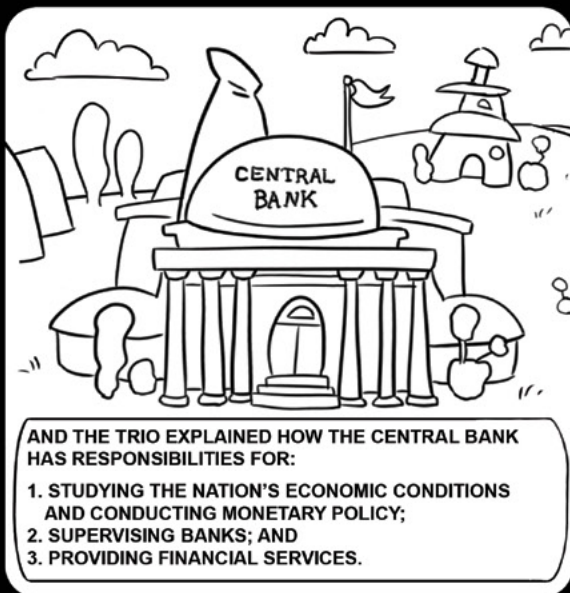
FLORA EXPLAINED HOW THE FED
SETS MONETARY POLICY.



RALLO PREMIERED HIS MOVIE ON WAYS
IN WHICH THE FED SUPERVISES BANKS.

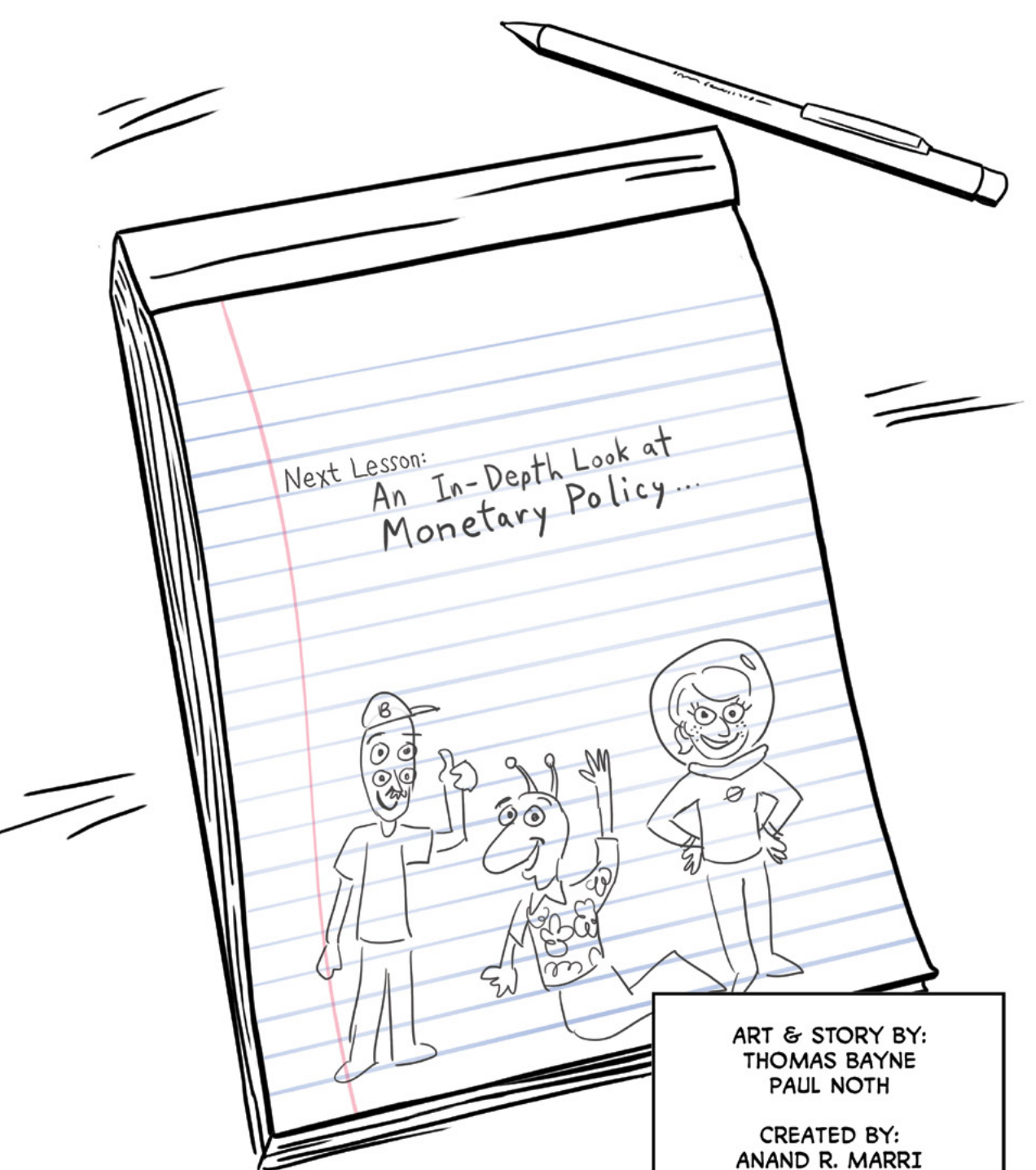


AND GLIX... I MEAN BRAD... SANG ABOUT
THE FINANCIAL SERVICES THE FED PROVIDES.



AND THE TRIO EXPLAINED HOW THE CENTRAL BANK
HAS RESPONSIBILITIES FOR:

1. STUDYING THE NATION'S ECONOMIC CONDITIONS
AND CONDUCTING MONETARY POLICY;
2. SUPERVISING BANKS; AND
3. PROVIDING FINANCIAL SERVICES.



Next Lesson:
An In-Depth Look at
Monetary Policy...



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