

W14: The Federal Reserve System

- What is the Fed?
- The Fed's objectives
- The structure of the Fed
- Fed's balance sheet and its relation to the rest of economy

Reading: Ch. 8.3: pg. 189-192; notes

HW09: due 04/22

The Federal Reserve System (the Fed)

- Central bank of the United States
- Independent regulatory agency that operates almost completely autonomously from the federal government
- Regulates a nation's depository institutions and controls the quantity of money in circulation
- The Fed's functions are:
 - ✓ To keep inflation in check
 - ✓ To maintain full employment
 - ✓ To moderate the business cycle
 - ✓ To contribute toward achieving long-term growth



The Structure of the Fed

- The Board of Governors
- 12 regional Federal Reserve banks
- The Federal Open Market Committee (FOMC)



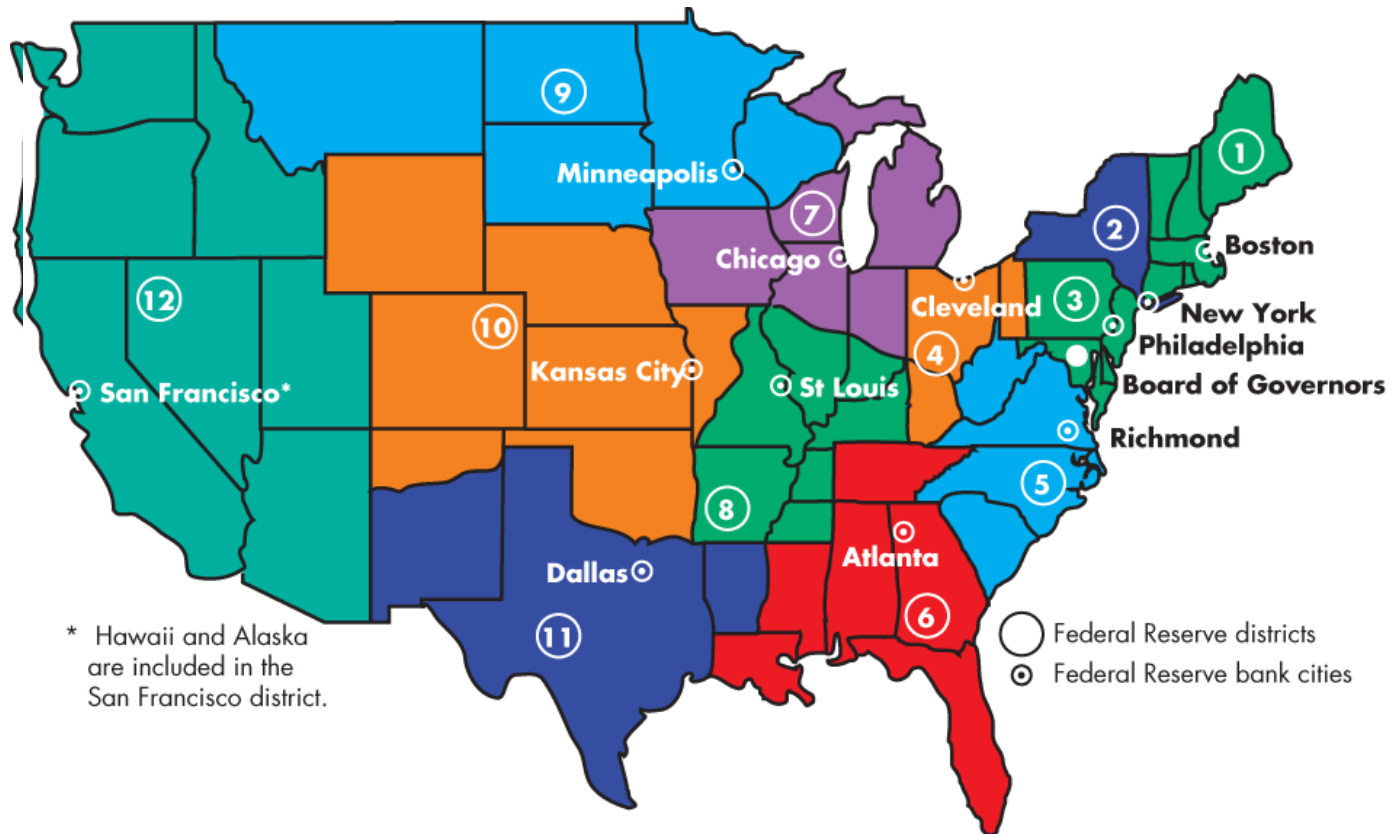
The Board of Governors

- Has seven members appointed by the U.S. president and confirmed by the Senate
- Board terms are for 14 years and terms are staggered so that one position becomes vacant every 2 years
- The president appoints one member to a (renewable) four-year term as chairman - currently Janet Yellen (since 2014)



Regional Federal Reserve Banks

Each of the 12 Federal Reserve Regional Banks has a nine-person board of directors and a president





Regional Federal Reserve Banks

- Have an intermediate legal status, with some features of private corporations and some features of public federal agencies
- Are not operated for profit
- Issue shares of stock to member banks (by law, banks have to buy stock in order to become a member)
- The stock may not be sold or traded or pledged as security for a loan
- Dividends are, by law, limited to 6% per year





Regional Federal Reserve Banks

- New York Fed is “special” because it implements the policy decisions in the financial markets
- Each FRB has a research department
- St. Louis Fed runs FRED (Federal Reserve Economic Data)





- Main policy-making group in the Federal Reserve System
- Oversees open market operations (Fed's buying and selling securities)
- Consists of:
 - members of the Board of Governors
 - the president of the Federal Reserve Bank of New York
 - 11 presidents of other regional Federal Reserve banks of whom, on a rotating basis, 4 are voting members
- Meets every six weeks to formulate monetary policy



- In practice, the chair of the Board of Governors has the largest influence on the Fed's policy
- Minutes are released 3 weeks after a meeting
- Transcripts are published 5 years after a meeting

The Fed's Balance Sheet

- The Fed influences the economy through the size and composition of its balance sheet
- The Fed's main assets are:
 1. U.S. government securities (Treasury bills and bonds)
 2. Mortgage-backed securities
- The Fed's main liabilities are:
 1. Currency (only bills)
 2. Reserves of depository institutions
 - *Cash in a bank's vault*
 - *Deposit account at the Fed*
- The Fed's total liabilities make up the *monetary base*



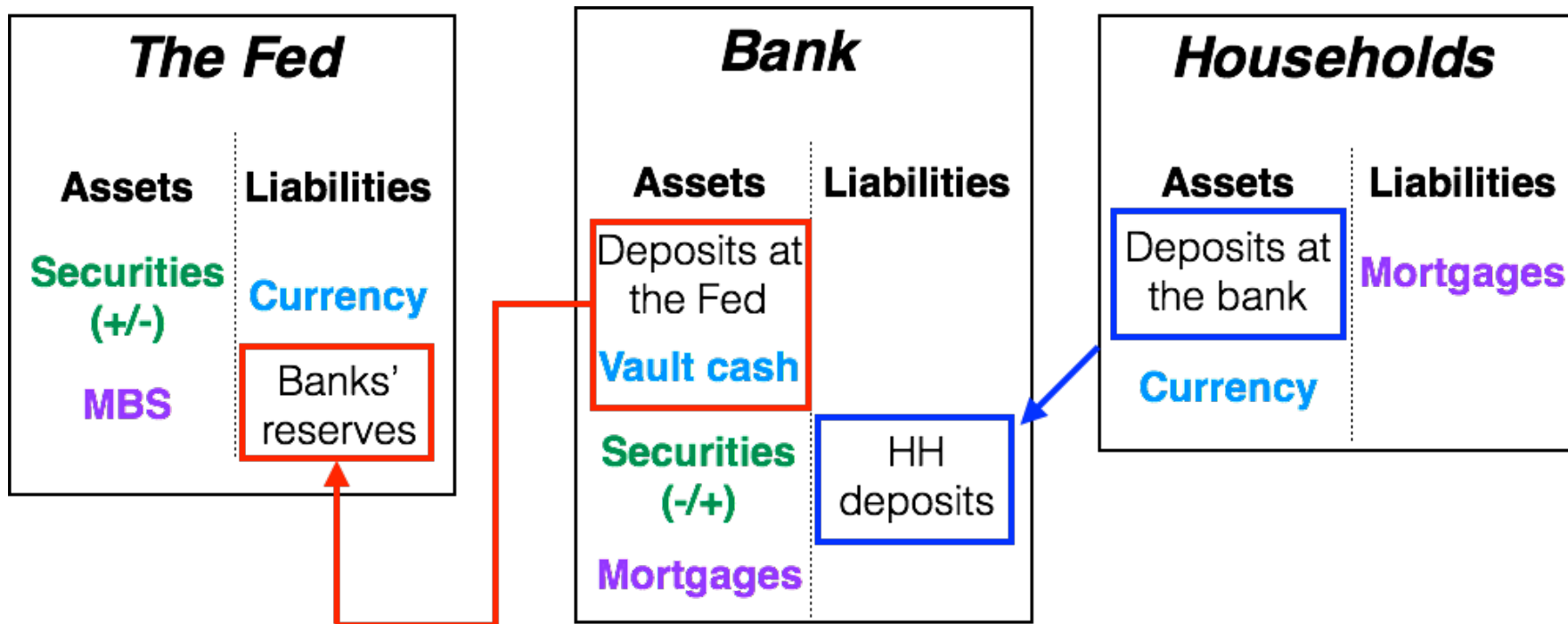
Table 1. Assets, liabilities, and capital of the Federal Reserve System

Billions of dollars

Item	Current October 28, 2015
Total assets	4,489
Selected assets	
Securities held outright	4,240
U.S. Treasury securities ¹	2,462
Federal agency debt securities ¹	34
Mortgage-backed securities ²	1,744
Memo: Overnight securities lending ³	14
Memo: Net commitments to purchase mortgage-backed securities ⁴	23
Unamortized premiums on securities held outright ⁵	192
Unamortized discounts on securities held outright ⁵	-17
Lending to depository institutions ⁶	*
Central bank liquidity swaps ⁷	*
Net portfolio holdings of Maiden Lane LLC ⁸	2
Foreign currency denominated assets ⁹	20
Total liabilities	4,431
Selected liabilities	
Federal Reserve notes in circulation	1,350
Reverse repurchase agreements ¹⁰	345
Foreign official and international accounts ¹⁰	189
Others ¹⁰	155
Term deposits held by depository institutions	0
Other deposits held by depository institutions	2,668
U.S. Treasury, general account	36
Other deposits ¹¹	20
Total capital	59



Balance Sheets of the Fed, Banks, and HHs



- The Fed manipulates its balance sheet in order to achieve the goals of maximum employment, stable prices, and moderate long-term interest rates
- How? We will find out in the next lecture