Educational Standards for Teaching about the Federal Reserve System

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Comments should be sent to: William Bosshardt, Florida Atlantic University, wbosshar@fau.edu and Paul W. Grimes, Mississippi State University, PGrimes@cobilan.msstate.edu.

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Introduction

The standards presented in this volume provide guidance for the Federal Reserve Banks of Atlanta and St. Louis in developing materials and programming for their economic education outreach programs. Every attempt has been made to put together a set of standards that outline the important principles that a thorough understanding of the Federal Reserve System entails. However, the design of a presentation for teachers about the Federal Reserve System is an art and not a mere listing of standards and benchmarks. Naturally, presentations and programs will include or emphasize some standards and pass over others. Of course, a teacher who is exposed to a large variety of presentations over time will eventually be exposed to the vast majority of the standards and benchmarks below.

The standards have been written with benchmarks for 8th grade and 12th grade students and for secondary school teachers. The benchmarks for each level have been designed to include what students and teachers should know if extensive knowledge about the Federal Reserve System is the goal. Needless to say, any teacher understands the idea of opportunity cost when deciding how much time to devote to one topic area such as the Federal Reserve System and monetary policy. The construction of lesson plans by teachers is also an art, and not a mere recitation of standards and benchmarks. Each teacher must tailor his or her lesson plans to the match the needs, interests and abilities of the students in his or her class.

Naturally, the functions and structure of the Federal Reserve System evolve over time to meet the challenges of our ever-changing economy. Thus, these standards and benchmarks should be periodically evaluated and modified to remain current and correct.

Educational Standards for Teaching about the Federal Reserve System:

I. Foundational Concepts: Money and Banking

Standard 1: Money serves many functions in our economy, including a medium of exchange, unit of account, and store of value. Money encourages specialization and trade within markets.

Standard 2: Banks are private businesses that hold deposits and make loans to households and businesses. Deposits held by banks create a pool of loanable funds that enable borrowers to pursue investment opportunities.

Standard 3: Commercial banks must keep a fraction of all deposits on reserve to ensure that funds are available to meet the daily transactions needs of depositors.

II. The Role of the Federal Reserve System

Standard 4: The Federal Reserve System, as the nation's central bank, promotes macroeconomic and financial system stability for the United States.

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Standard 5: Congress established the Federal Reserve System in 1913 to address the problems of financial system instability. A stable financial system promotes growth in the U.S. economy.

Standard 6: The Federal Reserve System's structure and functions have evolved in response to economic and political events. Over time, Congress has established a more coordinated, activist role for the Federal Reserve.

IV. Structure of the Federal Reserve System

Standard 7: The Federal Reserve System is an institution composed of the Board of Governors and 12 separate Federal Reserve Banks. The decentralized structure cultivates a diversity of views about policy.

Standard 8: The Federal Reserve System conducts monetary policy with relative autonomy from the federal government. While it is ultimately accountable to Congress, its independence insulates policy decisions from short-term political influence.

V. Monetary Policy

Standard 9: Acts by Congress direct the Federal Reserve System to pursue monetary policies that promote the goals of maximum employment, stable prices, and moderate long-term interest rates. Monetary policy works to achieve these goals by influencing the supply of money and credit available within the economy.

Standard 10: Open market operations, which are directed by the Federal Open Market Committee (FOMC), are the main monetary policy tool utilized by the Federal Reserve System. The FOMC often faces trade-offs between goals when making monetary policy decisions.

Standard 11: The Federal Reserve System lends to solvent financial institutions through its discount window and other facilities. These loans provide liquidity to financial institutions and promote financial stability.

VI. Banking Supervision and Regulation

Standard 12: The Federal Reserve System writes regulations and supervises financial institutions. This oversight promotes public confidence in the financial system.

Standard 13: The Federal Reserve System implements consumer credit laws to ensure consumers receive comprehensive credit information and impartial treatment.

VII. Financial Services

Standard 14: To promote a secure and efficient nationwide payment system, the Federal Reserve System provides services to financial institutions.

Standard 15: The Federal Reserve System serves as the fiscal agent for the U.S. federal government.

Educational Standards for Teaching about the Federal Reserve System and their Benchmarks:

I. Foundational Concepts: Money and Banking

Standard 1: Money serves many functions in our economy, including a medium of exchange, unit of account, and store of value. Money encourages specialization and trade within markets.

Benchmarks:

An 8th grade student will know:

1. Money is anything widely accepted as payment for goods and services. In our modern economy, money comes in many forms such as currency, coins, and deposits held at commercial banks and other financial institutions.
2. Medium of exchange means that money is accepted in trade for goods and services. Unit of account means that prices of goods are generally denoted in terms of money. Store of value means that money will retain (most) of its value over time.
3. Money makes specialization easier. Without money, buyers and sellers have to rely on barter to exchange goods and services.
4. Credit cards are not money. A credit card purchase is a short-term loan from the issuing financial institution to the buyer.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. Commercial banks create money in an economy by lending out a portion of their deposits.
2. Federal Reserve notes, which serve as U.S. currency, and coins are fiat money backed by our faith and trust in the federal government.
3. Different measures of money are characterized by different degrees of liquidity.
4. M1 and M2 are two widely used measures of the money supply in the United States. M1 consists of currency held by the public, traveler's checks, demand deposits, and other checkable deposits. M2 contains instruments and accounts that are less liquid.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The monetary base consists of currency plus banks' reserves held by the twelve Federal Reserve Banks.

Standard 2: Banks are private businesses that hold deposits and make loans to households and businesses. Deposits held by banks create a pool of loanable funds that enable borrowers to pursue investment opportunities.

Benchmarks:

An 8th grade student will know:

1. A commercial bank is a type of business that provides financial services, such as holding deposits and making loans, to its customers. Other financial institutions, such as savings and loans and credit unions provide similar services.

2. Most bank customers deposit money into checking and savings accounts. Checkable deposits are used for short-term spending transactions. Savings deposits are used to accumulate money over the long-term for future purchases and transactions.

3. People deposit money in commercial banks for safety and to earn interest. Having money on deposit at banks allows people to transfer this money to others through checks or electronic payments.

4. Commercial banks lend a portion of the deposits they receive to businesses or consumers wanting loans. The banks charge interest on these loans.

5. Commercial banks make a profit by charging a higher rate of interest on the loans they grant relative to the interest they pay for deposits.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. Commercial banks provide liquidity for their customers.

2. Commercial banks provide a service for borrowers by finding people willing to lend money; commercial banks provide a service for lenders by finding people wanting to borrow money.

3. By spreading deposits over a large number of loans, commercial banks provide depositors with a diversified portfolio.

A secondary school teacher will know the 12th grade benchmarks and know:

1. Relatively higher rates of interest encourage savings and discourage borrowing. The market rate of interest is the equilibrium price for loanable funds.

2. Commercial banks may receive their license to operate from either the federal government or their local state government. Federally chartered banks are known as "national banks" while state chartered banks are known simply as "state banks."

Standard 3: Commercial banks must keep a fraction of all deposits on reserve to ensure that funds are available for depositors.

Benchmarks:

An 8th grade student will know:

1. Bank reserves are the fraction of deposits that commercial banks hold to meet their customers' demands.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The required reserve ratio is the percentage of deposits banks are legally required to keep available in order to satisfy customer demand.

2. Commercial banks may hold their required reserves as cash in their vaults or on deposit with the Federal Reserve Bank in their district.

3. The level of a commercial bank's reserves determines how much credit it can extend as loans to households and businesses. Commercial banks may borrow from each other or from the Federal Reserve to increase their reserves.

4. The lower the required reserve ratio, the more money commercial banks have available for loans to borrowers. The higher the required reserve ratio, the less money commercial banks have available for loans to borrowers.

5. Commercial banks often hold more reserves than required in order to meet depositors' transactions needs. These reserves are referred to as excess reserves.

6. Commercial banks which choose to hold excess reserves have fewer funds available for loans to customers.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The required reserve ratio may vary according to the type of commercial bank deposit. Generally, less liquid deposits have a relatively lower required reserve ratio.

II. The Role of the Federal Reserve System

Standard 4: The Federal Reserve System, as the nation's central bank, promotes macroeconomic and financial system stability for the United States.

Benchmarks:

An 8th grade student will know:

1. The Federal Reserve System is the central bank for the United States. Most developed countries in the world have a central bank.

2. The Federal Reserve may take actions to influence the nation's economy by influencing the available supply of money and credit.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. Central banks perform various roles in their countries. These roles can include influencing money and credit conditions within their domestic economy, supervising and regulating financial institutions, maintaining financial system stability, distributing currency, acting as banker for commercial banks and other financial institutions, serving as lender of last resort, and providing financial services for the government.

2. Central banks influence the availability of money and credit within their economy through monetary policy. Monetary policy includes actions which influence the level of bank reserves and interest rates.

3. Actions by the Federal Reserve that lower short-term interest rates promote a higher level of economic activity, while actions that raise short-term interest rates restrain the level of economic activity.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The U.S. Treasury has overall responsibility for U.S. international financial policy. Acting on behalf of the Treasury, the Federal Reserve may buy and sell on the foreign exchange market to influence the value of the U.S. dollar.

2. Actions to modify the dollar's value are generally sterilized, or offset with other operations, so that domestic monetary policy is not changed.

III. History of the Federal Reserve System

Standard 5: Congress established the Federal Reserve System in 1913 to address the problems of financial system instability. A stable financial system promotes growth in the U.S. economy.

Benchmarks:

An 8th grade student will know:

1. The Federal Reserve System was founded in 1913 in response to bank panics that occurred during the late 1800s and early 1900s. In creating the Federal Reserve System, Congress hoped to avoid the debilitating effects of bank panics on the economy's growth.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The founding fathers of the United States disagreed over the need for a central bank. Many feared the concentration of financial power in one institution.

2. The First and Second Banks of the United States were early attempts at establishing a central bank. Charters of both banks were not renewed because of political opposition.

3. Between 1836 and 1913, the United States operated without a national central bank. This period, known as the "free banking era," was characterized by numerous bank runs and financial panics which weakened the national economy.

4. During much of the free banking era, notes issued by state-chartered commercial banks circulated as currency. These bank notes were often discounted from face value to reflect the soundness of the issuing bank.

5. The "Banking Panic of 1907" resulted in a renewed call for banking reform and establishment of a central banking authority.

6. The Federal Reserve Act ended more than a century of debate about the nation's financial system. The Act established an independent central bank for the United States by creating a federal system with 12 independent reserve banks distributed across the country and overseen by the Board of Governors. The 12 geographic Federal Reserve districts were drawn to reflect the composition of economic interests across the nation at the time of the Federal Reserve's founding.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The controversy surrounding the establishment of a national central bank was a major political issue during the late 1700s and early 1800s. In general, Federalists (Hamiltonians) supported the principle of a central bank while Democratic-Republicans (Jeffersonians) preferred a system of independent commercial state banks.

2. The U.S. Supreme Court ruled that Congress could establish a central bank under the "implied power" clause of the Constitution (McCulloch v. Maryland, 1819).

3. During the free banking era, the federal government had little control over the nation's monetary and financial system.

Standard 6: The Federal Reserve System's structure and functions have evolved in response to economic and political events. Over time, Congress has established a more coordinated, activist role for the Federal Reserve.

Benchmarks:

An 8th grade student will know:

1. Numerous commercial banks failed in the years immediately following the stock market crash of 1929.

2. Beginning in the late 1960s, the Federal Reserve has been charged with enforcing laws that protect consumers. Some examples of these laws are ones that protect consumers from misleading financial information, lending discrimination, and violations of privacy by financial institutions.

3. During the 1970s, the economy of the United States experienced a significant rise in the rates of inflation and unemployment. In response, Congress passed legislation to restate the Federal Reserve's dual mandate to maintain stable prices and economic growth.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. Originally, the 12 Federal Reserve banks did not act in coordination with each other, which hampered their ability to enact monetary policy.

2. During the Great Depression, the Federal Reserve chose not to act as “lender of last resort” to commercial banks. The Great Depression resulted in significant banking reforms, including the Glass-Steagall Act of 1933, which prohibited banks from engaging in the securities business. Congress also gave the Federal Reserve authority to restrict interest payments on commercial bank deposits.

3. During the Great Depression, the Federal Reserve did little to expand the supply of money and credit. The Banking Act of 1933 gave statutory authority to the Federal Open Market Committee (FOMC), which coordinates the buying and selling of government securities for the system.

4. The “1951 Accord” allows the Federal Reserve to independently determine if it wishes to purchase government securities on the open market, and what price it is willing to pay.

5. The Consumer Credit Protection Act of 1968 and its subsequent amendments require the Federal Reserve to write and enforce a number of laws written to protect consumers.

6. The Humphrey-Hawkins Act of 1978 required the Federal Reserve to provide Congress with semi-annual reports on its goals and policies. The law has expired but the Federal Reserve continues to report to Congress twice a year.

7. The deregulation actions of the 1980s permitted commercial banks to open branches in multiple states, and freed them from restrictions on paying interest to deposit holders.

8. By the 1990s, the Glass-Steagall Act was reversed and banks were allowed to combine with investment firms and offer insurance products to consumers. Congress granted the Federal Reserve enhanced powers to oversee such large and complex institutions.

A secondary school teacher will know the 12th grade benchmarks and know:

1. Without a specific mandate from Congress, the Federal Reserve did not deliberately invoke its powers to engage in expansionary monetary policy during the Great Depression.

2. The banking deregulation of the 1980s and 1990s resulted in a wave of mergers between commercial banks and financial institutions. There are fewer, but larger, banks today than prior to deregulation. However, commercial banks now offer a wider portfolio of products and services.

IV. Structure of the Federal Reserve System

Standard 7: The Federal Reserve System is an institution composed of the Board of Governors and 12 separate Federal Reserve Banks. The decentralized structure cultivates a diversity of views about policy.

Benchmarks:

An 8^{th} grade student will know:

1. The Federal Reserve System differs from other nations' central banks in that it is composed of 12 geographically dispersed regional banks coordinated by a Board of Governors in Washington, D.C. Each of the 12 Federal Reserve Banks serves a specific geographic territory often covering several states.

2. The Board of Governors, which oversees the Federal Reserve System, consists of seven members. Each member of the Board of Governors is appointed by the U.S. President and confirmed by the Senate. The Chairman of the Board of Governors is the most visible member of the board.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The organizational structure of the Federal Reserve System was designed to prevent a concentration of financial power at one centralized location and to address the differences in financial conditions that often vary across regional areas. Each bank gathers economic data from its region and conducts economic analysis.

2. Each of the 12 Federal Reserve Banks maintains a board of directors. The boards are constructed so as to solicit information from banking, commercial, agricultural, industrial, and public interests.

3. The Board of Governors oversees the Federal Reserve Banks. The Board of Governors approves the discount rates set by the individual Federal Reserve Banks.

A secondary school teacher will know the 12th grade benchmarks and know:

1. Each of the 12 Federal Reserve Banks is governed by a nine member board. The board consists of three members representing member banks, three members who are elected by member banks but who represent the public, and three members who are appointed by the Board of Governors and who represent the broad public interests. The Reserve Bank's board chairman is always a non-banker.

2. National banks chartered by the federal government must belong to the Federal Reserve System, while state-chartered banks have the option to belong. State-chartered commercial banks that become members of the Federal Reserve System buy stock in, and become subject to, Federal Reserve supervision and regulation.

Standard 8: The Federal Reserve System conducts monetary policy with relative autonomy from the federal government. While it is ultimately accountable to Congress, its independence insulates policy decisions from short-term political influence.

Benchmarks:

An 8th grade student will know:

1. The Federal Reserve System is an independent institution within the government. Neither the Congress nor the president has the authority to enact monetary policy.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. A full term for a member of the Board of Governors is fourteen years. A member may serve only one full term. The lengthy term frees the members to pursue policies that embrace long-run goals and minimizes short-term political pressure.
2. The Federal Reserve System is a quasi-public institution authorized by Congress to promote a stable economy through its regulatory oversight of the financial system and influence on the supply of money and credit.
3. Member commercial banks must subscribe to stock in their district's Federal Reserve Bank. However, these banks have no policy-making power as stockholders. Member banks earn dividends from their Federal Reserve stock, but the stock may not be sold, traded or used as collateral for loans.
4. The Federal Reserve Banks use interest from the government securities they hold, interest from funds borrowed by member banks, and fees for banking services to fund their activities. Thus, the Federal Reserve does not depend on Congress for funding. Excess revenues earned by the Federal Reserve are returned to the U.S. Treasury.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The Board of Governors is advised by a number of committees. These committees include the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council.

2. The Federal Reserve System is independent from the U.S. Treasury; therefore, it is free to engage in open market operations to support its monetary policy goals.

3. Countries whose central banks lack independence tend to have higher rates of inflation.

V. Monetary Policy

Standard 9: Acts by Congress direct the Federal Reserve System to pursue monetary policies that promote the goals of maximum employment, stable prices, and moderate long-term interest rates. Monetary policy works to achieve these goals by influencing the supply of money and credit available within the economy.

Benchmarks:

An 8th grade student will know:

1. The Federal Reserve System influences the supply of money and credit in the U.S. economy.

2. Inflation is a sustained increase in the general price level. Deflation is a sustained decrease in the general price level.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The Federal Reserve has three tools that can be used to change the supply of money and credit in the economy – conducting open market operations, changing the discount rate, and changing the required reserve ratio.

2. Open market operations are the main tool the Federal Reserve uses to influence the money supply. Open market operations refer to the buying and selling of U.S. government securities on the open market by the Federal Reserve.

3. By buying government securities, the Federal Reserve increases the supply of bank reserves which puts downward pressure on the federal funds rate. By selling government securities, the Federal Reserve decreases bank reserves and pushes up the federal funds rate.

4. Federal Reserve policies which result in higher interest rates are referred to as "tight" monetary policy; policies that result in lower interest rates are referred to as "easy" monetary policy.

5. A decrease in interest rates encourages firms to borrow funds to finance the purchase of new equipment, factories or software; an increase in interest rates discourages such investments.

6. A decrease in interest rates encourages consumer borrowing to buy goods such as homes, automobiles and other consumer goods; an increase in interest rates discourages such consumer borrowing.

7. If all else remains the same, an increase in investment and consumer spending causes real GDP to increase and the unemployment rate to decrease. Likewise, if all else remains the same, a decrease in these expenditures slows the economy, meaning that real GDP will decrease and unemployment will increase.

8. Changes in the money supply take time to impact the economy. This lag means that policymakers must base their decisions on where they think the economy is going as well as the state of the economy at the time of the decision.

9. The required reserve ratio, though rarely changed, is used by the Federal Reserve to ensure that banks have adequate reserves to meet the daily transactions of depositors.

10. In practice, the required reserve ratio is not used as a tool to influence the money supply. If the Federal Reserve were to increase the required reserve ratio, the amount banks could lend is decreased, and would cause short-term interest rates to rise. Decreasing the reserve ratio would increase the amount banks may lend, which tends to lower short-term interest rates.

A secondary school teacher will know the 12th grade benchmarks and know:

1. A decrease in short-term interest rates will increase aggregate demand in the economy. An increase in short-term interest rates will decrease aggregate demand in the economy.

2. The money multiplier tells how a change in the monetary base, which consists of currency plus reserves, will change the money supply.

Standard 10: Open market operations, which are directed by the Federal Open Market Committee (FOMC), are the main monetary policy tool utilized by the Federal Reserve System. The FOMC often faces trade-offs between goals when making monetary policy decisions.

Benchmarks:

An 8th grade student will know:

1. If the Federal Reserve lowers short-term interest rates, the economy tends to grow faster for a period of time.

2. If there is too much money in circulation, inflation may result.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The Federal Open Market Committee (FOMC) is composed of the seven members of the Board of Governors plus five of the Federal Reserve Bank Presidents. The New York Federal Reserve Bank president is always a voting member of the committee. Other Banks' presidents serve as voting members on a rotating basis.

2. The Open Market Trading Desk at New York Federal Reserve Bank is in charge of carrying out the instructions prescribed by the FOMC.

3. The FOMC sets a target for the federal funds rate, the interest rate depository institutions charge each other for overnight loans of reserves on deposit at their Federal Reserve Bank.

4. An increase in a commercial bank's reserves means that a commercial bank can extend more credit to customers, which increases the supply of money and credit in the economy.

5. When formulating monetary policy, the FOMC considers many factors including money supply measures, interest rates, the current and expected inflation rate, and projections of economic growth.

6. By pursuing an easy monetary policy during a recession and a tight monetary policy during rapid growth, the Federal Reserve seeks to promote both price stability and a maximum level of employment (the Federal Reserve's dual mandate).

7. Through open market operations, the Open Market Trading Desk increases or decreases the amount of bank reserves to keep the federal funds rate near the target. If the federal funds rate is below the target, the Trading Desk will decrease reserves by selling government securities. If the federal funds rate is above the target, the Trading Desk will increase reserves by buying government securities.

8. With more money and credit in the economy, real GDP tends to increase in the short run. However, increasing money and credit in excess of the economy's capacity for economic growth can put upward pressure on the price level by creating a situation where "too much money is chasing too few goods."

9. The economy sometimes experiences rising prices and no growth, a condition known as stagflation. During stagflation, the FOMC faces a difficult trade-off, since an easy monetary policy risks higher inflation, while a tight monetary policy risks higher unemployment.

10. To bring high inflation under control, the Federal Reserve's tight credit policies of the early 1980s left many workers unemployed. Based on its experience with the Great Inflation of the 1970s and early 1980s, the Federal Reserve believes that long-term price stability must be maintained to prevent a recurrence of such problems.

11. Low, stable inflation supports moderate long-term interest rates in the market. Moderate long term interest rates are important in promoting investment, and in turn, economic growth.

12. Changes in U.S. interest rates can have an impact on the U.S. dollar exchange rate. An increase in U.S. interest rates may cause the dollar to appreciate; a decrease may cause the dollar to depreciate. The impact of interest rates on the dollar exchange rate is another issue the FOMC may consider in making its decisions about monetary policy. However, the dollar's exchange value is not a goal of monetary policy.

13. In the long run, a county's output of goods and services is determined by its technological abilities and its resources. The Federal Reserve's influence over long run growth is limited to providing an environment that encourages development of technology, capital and other resources though moderate interest rates and stable prices.

14. Fiscal policy, which is controlled by the U.S. Congress and the President, is a tool that U.S. government policymakers have to influence the economy. Fiscal policy refers to tax and spending policies of the federal government that influence the economy.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The Open Market Trading Desk may buy government securities permanently or temporarily through repurchase agreements.

2. The Federal Reserve seeks to close recessionary gaps in output with an expansionary monetary policy that works toward increasing aggregate demand. The Federal Reserve seeks to close inflationary gaps with a contractionary monetary policy that decreases aggregate demand.

3. Policy rules such as the Taylor Rule can be used to describe how the Federal Reserve has behaved historically.

Standard 11: The Federal Reserve System lends to solvent financial institutions through its discount window and other facilities. These loans provide liquidity to financial institutions and promote financial stability.

Benchmarks:

An 8th grade student will know:

1. The Federal Reserve may lend to banks and other financial institutions to meet temporary short-term liquidity needs.

2. The Federal Reserve may serve as a "lender of last resort" for banks and other financial institutions that are temporarily distressed.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The discount rate (or primary credit rate) is the interest rate the Federal Reserve Banks charge eligible depository institutions for short term loans.

2. By increasing the discount rate, the Federal Reserve Banks reduce the amount member banks wish to borrow, which can reduce the amount banks are willing to lend.

3. The Federal Reserve Banks can serve as a lender in difficult times such as natural disasters or financial crises when credit is difficult to obtain. In the latter case, this role is called the lender of last resort.

4. In response to the housing crisis of 2007, the Federal Reserve expanded its lending programs by increasing the length of loans, changing the requirements for collateral on loans, and allowing a wider variety of financial institutions to borrow from the discount window. In response to the deepening of this crisis in 2008, the Federal Reserve expanded further its lending programs.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The discount rate is established by the board of directors of each Federal Reserve Bank. The discount rate is subject to review and determination by the Board of Governors.

VI. Banking Supervision and Regulation

Standard 12: The Federal Reserve System writes regulations and supervises financial institutions. This oversight promotes public confidence in the financial system.

Benchmarks:

An 8th grade student will know:

1. The Federal Reserve Banks examine the financial records, the policies, and the procedures of commercial banks to ensure that the banks are operating in a safe and sound manner.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The Federal Reserve System supervises all state-chartered depository institutions that are members of the Federal Reserve System, bank holding companies and foreign banking organizations, and has the authority to write rules for some regulations that affect most depository institutions.

2. In supervising commercial banks, the Federal Reserve Banks use the CAMELS system. CAMELS is an acronym for the six components of the rating system: capital, assets, good management, earnings, liquidity and sensitivity to risk.

3. When examining a commercial bank's books, the Federal Reserve Bank examiners use the five Cs of credit to evaluate the bank's loans. The five Cs of credit are Capacity to pay the loan, Capital invested in the project funded by the loan, Collateral to back up the loan, Conditions of the economy, and the Character of the person or business that has taken out the loan.

4. The Federal Reserve System shares its regulatory oversight of commercial banks with other federal and state agencies. The regulatory role of the Fed has expanded into broader financial markets such as insurance and equities underwriting.

5. The Federal Deposit Insurance Corporation (FDIC) insures some of the deposits of its member banks. The FDIC guarantees these deposits against loss. The FDIC gets the money to reimburse losses from premiums that it charges its member banks.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The Federal Reserve System works with international organizations such as the Bank for International Settlements (BIS) to create consistency and safety in the world's banking system.

2. The Office of the Comptroller of the Currency (OCC) is a bureau of the Treasury Department that regulates nationally chartered banks.

3. The Office of Thrift Supervision (OTS) is a bureau of the Treasury Department that regulates federal savings associations.

4. The National Credit Union Association (NCUA) is an independent federal agency that regulates federal credit unions.

Standard 13: The Federal Reserve System implements consumer credit laws to ensure consumers receive comprehensive credit information and impartial treatment.

Benchmarks:

An 8th grade student will know:

1. The Federal Reserve writes many regulations to carry out the major consumer protection laws.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. Laws such as the Truth in Lending Act (1968) and Home Mortgage Disclosure Act (1975) ensure that consumers receive from lenders the information needed to make an informed decision when applying for a loan.

2. Laws such as the Fair Housing Act (1968) and the Equal Credit Opportunity Act (1974) forbid lenders from discriminating on many bases such as sex, marital status, race, color, or national origin.

3. The Community Reinvestment Act (1977) requires that depository institutions meet the credit needs of the entire community it serves, including low- and moderate-income neighborhoods.

A secondary school teacher will know the 12th grade benchmarks and know:

1. The Federal Reserve is responsible for enforcing consumer protection laws for state-chartered banks that are members of the Federal Reserve System, as well as for their affiliated financial companies. Other agencies (listed in Standard 12 benchmarks) are responsible for the enforcement of rules and regulations for other depository institutions.

VII. Financial Services

Standard 14: To promote a secure and efficient nationwide payment system, the Federal Reserve System provides services to financial institutions.

Benchmarks:

An 8th grade student or young adult will know:

1. Federal Reserve notes serve as U.S. currency. The Federal Reserve Banks distribute currency and coins to commercial banks.

2. Coins are produced by the U.S. Mint. Federal Reserve notes are printed by the Bureau of Engraving and Printing. Both agencies are part of the U.S. Treasury Department.

3. To address the problem of counterfeiting, the Federal Reserve System works closely with the U.S. Treasury to continually improve the security measures employed in the printing of our currency.

4. The Federal Reserve acts as a clearinghouse for checks and certain electronic payments.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The Automated Clearinghouse (ACH), developed by the Federal Reserve System in conjunction with private concerns, provides a more efficient electronic equivalent to checks.

A secondary school teacher will know the 12th grade benchmarks and know:

1. Fedwire allows its bank participants to make primarily large dollar electronic funds transfers that are immediate, final and irrevocable.

Standard 15: The Federal Reserve System serves as the fiscal agent for the U.S. federal government.

Benchmarks:

An 8th grade student or young adult will know:

1. The Federal Reserve serves as the bank for the U.S. federal government.

A 12th grade student or young adult will know the 8th grade benchmarks and know:

1. The Federal Reserve System acts as the federal government's agent in selling U.S. government securities on the open market.

A secondary school teacher will know the 12th grade benchmarks and know:

1. Most central banks around the world serve as the fiscal agent for their nation's government. They receive revenues, hold deposits, and make payments for their national governments.

GLOSSARY OF TERMS

Appreciation
An increase in the value or price. [a]

Asset
Anything an individual or a business owns that has commercial or exchange value. [a]

Bank note
A term used synonymously with paper money or currency issued by a bank. Notes are, in effect, a promise to pay the bearer on demand the amount stated on the face of the note. Today, only the Federal Reserve Banks are authorized to issue bank notes, i.e., Federal Reserve notes, in the United States. [a]

Bank run (bank panic)
A series of unexpected cash withdrawals caused by a sudden decline in depositor confidence or fear that the bank will be closed by the chartering agency, i.e. many depositors withdraw cash almost simultaneously. Since the cash reserve a bank keeps on hand is only a small fraction of its deposits, a large number of withdrawals in a short period of time can deplete available cash and force the bank to close and possibly go out of business. [a]

Capital
In banking, the funds invested in a bank that are available to absorb loan losses or other problems and therefore protect depositors. Capital includes all equity and some types of debt.[b]

Capital market
The market in which corporate equity and longer-term debt securities (those maturing in more than one year) are issued and traded. [b]

Central bank
The principal monetary authority of a nation, which performs several key functions, including conducting monetary policy to stabilize the economy and level of prices. The Federal Reserve is the central bank for the United States. [b]

Collateral
Property that is offered to secure a loan or other credit and that becomes subject to seizure on default. (Also called security) [a]

Commercial Bank
Bank that offers a variety of deposit accounts, including checking, savings, and time deposits, and extends loans to individuals and businesses. Commercial banks can be contrasted with investment banking firms, which generally are involved in arranging for the sale of corporate or municipal securities, and broker-dealer firms, which buy and sell securities for themselves and others. [b]

Consumer Advisory Council
A group, created under the Federal Reserve Act, composed of thirty members who represent the interests of a broad range of consumers and creditors. The council meets with the Board of Governors three times a year on matters concerning consumers and the consumer protection laws administered by the Board. [b]

Credit
The promise to pay in the future in order to buy or borrow in the present. The right to defer payment of debt. [a]

Credit Union
Financial cooperative organization whose membership consists of individuals who have a common bond, such as place of employment or residence or membership in a labor union. Credit unions accept deposits from members, pay interest (in the form of dividends) on the deposits out of earnings, and use their funds mainly to provide consumer installment loans to members. [b]

Currency appreciation
An increase in the value of one currency relative to another currency. Appreciation occurs when, because of a change in exchange rates, a unit of one currency buys more units of another currency. [a]

Currency depreciation
A decline in the value of one currency relative to another currency. Depreciation occurs when, because of a change in exchange rates, a unit of one currency buys fewer units of another currency. [a]

Decentralize
To distribute the administrative functions or powers of a central authority among several local authorities. [a]

Demand
Describes the behavior of a buyer of a good or service. Demand is given by the relationship between the price of the good and the quantity of the good that buyers are willing to purchase, holding everything else constant.

Depository institution
Financial institution that makes loans and obtains its funds mainly through accepting deposits from the public; includes commercial banks, savings and loan associations, savings banks, and credit unions. [a]

Deregulation
The act or process of removing restrictions and regulations including government regulation of tariffs, market entry and exit and / or facilities in public services. [a]

Discount rate
Officially the primary credit rate, it is the interest rate at which an eligible depository institution may borrow funds, typically for a short period, directly from a Federal Reserve Bank. The law requires that the board of directors of each Reserve Bank establish the discount rate every fourteen days, subject to review and determination by the Board of Governors. [b]

Discount window (the window)
Figurative expression for the Federal Reserve facility that extends credit directly to eligible depository institutions (those subject to reserve requirements); so named because, in the early days of the Federal Reserve System, bankers would come to a Reserve Bank teller window to obtain credit. [b]

Dividend
A share of profits paid to a stockholder. [a]

Economic growth
An increase in the nation's capacity to produce goods and services. [a]

Equilibrium
A situation in which the quantities demanded and supplied in a market are equal. Equilibrium exists when forces that cause changes in the market are in balance so that there is no tendency for the market price to change. [a]

Exchange rate
The price of a country's currency in terms of another country's currency. [a]

Federal Advisory Council
Advisory group made up of one representative (in most cases a banker) from each of the twelve Federal Reserve Districts. Established by the Federal Reserve Act, the council meets periodically with the Board of Governors to discuss business and financial conditions and to make recommendations. [b]

Fiat paper money (or Fiat currency)
Paper currency that has value because the government has decreed that it is a "legal tender" for making tax payments and often for discharging other debts and payments as well. Fiat money does not represent a claim on some other form of money or commodity such as gold and silver. [a]

Foreign exchange markets
Markets in which foreign currencies are purchased and sold. [b]

Government securities
Securities issued by the U.S. Treasury or federal agencies. [b]

Interest
A fee for the use of money over time. It is an expense to the borrower and revenue to the lender. Also money earned on a savings account. [a]

Lender of last resort
As the nation's central bank, the Federal Reserve has the authority and financial resources to act as "lender of last resort" by extending credit to depository institutions or to other entities in unusual circumstances involving a national or regional emergency, where failure to obtain credit would have a severe adverse impact on the economy. [a]

Liquidity
Quality that makes an asset easily convertible into cash with relatively little loss of value in the conversion process. Sometimes used more broadly to encompass cash and credit in hand and promises of credit to meet needs for cash. [b]

M1
Measure of the U.S. money stock that consists of currency held by the public, traveler's checks, demand deposits, and other checkable deposits. [b]

M2
Measure of the U.S. money stock that consists of M1, savings deposits (including money market deposit accounts), time deposits in amounts of less than $100,000, and balances in retail money market mutual funds. Excludes individual retirement account (IRA) and Keough balances at depository institutions and retail money funds. [b]

Macroeconomics
The study of economics in terms of whole systems with reference to general levels of output and income and to the interrelations among sectors of the economy. See also microeconomics. [a]

Mergers
The absorption of an estate, corporation, contract, or an interest in another. [a]

Microeconomics
The study of economics in terms of individual areas of activity (as a firm, household or prices). See also macroeconomics. [a]

Monetary policy
A central bank's actions to influence the availability and cost of money and credit, as a means of helping to promote national economic goals. Tools of monetary policy include open market operations, direct lending to depository institutions, and reserve requirements. [b]

Money supply
Total quantity of money available for transactions and investment; measure of the U.S. stock include M1, M2 and M3. (Also referred to as the money stock or simply money.) [a]

Portfolio
Collection of loans or assets, classified by type of borrower or asset. For example, a bank's portfolio might include loans, investment securities, and assets managed in trust; the loan portfolio might include commercial, mortgage, and consumer installment loans. [b]

Profit
The return received on a business undertaking after all operating expenses have been met. [a]

Real GDP
GDP (gross domestic product) adjusted for inflation. Real GDP provides the value of GDP in constant dollars, which is used as an indicator of the volume of the nation's output. [a]

Recession
A significant decline in general economic activity extending over a period of time. Usually declared after two consecutive quarters of declining gross domestic products.[a]

Regulation
A principle, rule, or law designed to control or govern. [a]

Repurchase agreement (RP or repo)
A transaction in which the Federal Reserve enters into an agreement with a primary dealer to acquire securities from the dealer for a specified principal amount at an agreed-upon interest rate and to return the securities on a specified future date. The maturity date may be the next day or many days later, with the maximum length set by the FOMC. These transactions permit the Federal Reserve to increase the supply of Federal Reserve balances for the length of the agreement. [b]

Savings Account
A service depository institutions offer whereby people can deposit their money for future use and earn interest. [a]

Savings Bank
Depository institution historically engaged primarily in accepting consumer savings deposits and in originating and investing in residential mortgage loans; now may offer checking-type deposits and make a wider range of loans. [b]

Savings and Loan Association (S&L)
Historically, depository institution that accepted deposits mainly from individuals and invested heavily in residential mortgage loans; although still primarily residential lenders, S&Ls now have many of the powers of commercial banks. [b]

Securities
Paper certificates (definitive securities) or electronic records (book-entry securities) evidencing ownership of equity (stocks) or debt obligations (bonds). [b]

Short-term interest rates
Interest rates on loan contracts-or debt instruments such as Treasury bills, bank certificates of deposit or commercial paper-having maturities of less than one year. Often called money market rates. [a]

Sterilization
Foreign exchange intervention operations involving dollars affect the supply of Federal Reserve balances to U.S. depository institutions, unless the Federal Reserve offsets the effect. The Federal Reserve offsets, or "sterilizes," the effects of intervention on Federal Reserve balances through open market operations; otherwise, the intervention could cause the federal funds rate to move away from the target set by the FOMC. [b]

Supply
Describes the behavior of a seller of a good or service. Supply is given by the relationship between the price of the good and the quantity of the good that sellers are willing to bring to the market for sale, holding everything else constant.

Thrift Institutions Advisory Council
Group established by the Board of Governors to obtain information and opinions on the needs and problems of thrift institutions. Made up of representatives of savings and loan associations, savings banks, and credit unions. [b]

Treasury
The executive department of a government in charge of the collection, management, and expenditure of the public revenue. [a]

Unemployment rate
The percentage of the labor force that is unemployed and actively seeking a job. [a]

Endnotes

[a] Source: Fed 101: The Federal Reserve Today
http://www.federalreserveeducation.org/fed101/glossary/glossary.cfm accessed October, 2008

[b] Source: The Federal Reserve System: Purposes & Functions
http://www.federalreserve.gov/pf/pdf/pf_complete.pdf accessed October, 2008.