Inside the Fed

How national decisions and regional work shape the banking system

GE.6.4 "Describe the structure and functions of the Federal Reserve System."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each part of the Federal Reserve named in the passage, and circle an action that part takes. Use your marks to connect the Fed's structure to its functions.

Who Does What at the Fed?

1 Imagine a neighborhood bakery seeking a loan while ingredient prices rise. The Federal Reserve, or Fed, influences the conditions behind that loan, but it does not set the bakery's loan rate. Congress created the Fed as the nation's central bank with a national Board of Governors in Washington, D.C., and 12 regional Federal Reserve Banks. The seven governors are nominated by the president and confirmed by the Senate for staggered terms. The Board helps guide the system and supervises certain banks. Regional Reserve Banks serve banks in their districts and bring local economic information into national discussions.

2 The Federal Open Market Committee, or FOMC, makes key monetary policy decisions. It includes the seven governors, the president of the New York Fed, and four other regional Reserve Bank presidents who vote on a rotating basis. The committee sets a target range for the federal funds rate, the rate banks charge one another for overnight loans of reserve balances. The New York Fed carries out open market operations under the committee's direction, buying or selling securities to help keep this rate within the target range. Changes in this rate can influence other borrowing costs, including what a bakery might pay on a loan.

3 The regional banks also operate payment services that help banks move money, so a bakery's electronic payment can reach a supplier. They may lend to eligible banks through the discount window, which can help a bank facing a short-term funding need. Reserve Banks supervise certain financial institutions under authority delegated by the Board, while the Board provides systemwide oversight. This structure joins national leadership with regional work rather than placing every decision in one office. Monetary policy decisions are made without direct approval from elected officials, but Fed leaders report to Congress and explain their actions to the public.

2 ANSWER WITH EVIDENCE

Use the passage

1. How are members of the Board of Governors chosen, and what does the Board do?

2. Who votes on the FOMC, and what decision does it make about interest rates?

3. How do regional Reserve Banks connect local banking needs to the Fed's national work? Give two examples.

4. How do the FOMC and the New York Fed work together to influence borrowing costs?

3 YOUR TURN

Your own words

A student claims, "The Fed is just one office that sets every bank's loan rate." Write 4 to 5 sentences correcting the claim. Name at least two parts of the Fed and explain how their different jobs affect borrowing or bank services.

Inside the Fed

PART 1 · READ AND MARK

Underline each part of the Federal Reserve named in the passage, and circle an action that part takes. Use your marks to connect the Fed's structure to its functions. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How are members of the Board of Governors chosen, and what does the Board do?	**The president nominates the seven governors, and the Senate confirms them. The Board guides the Fed system, supervises certain banks, and provides systemwide oversight.**
2	Who votes on the FOMC, and what decision does it make about interest rates?	**The seven governors, the New York Fed president, and four rotating regional Reserve Bank presidents vote. The FOMC sets a target range for the federal funds rate.**
3	How do regional Reserve Banks connect local banking needs to the Fed's national work? Give two examples.	**They bring local economic information into national discussions. They also serve banks in their districts, such as by operating payment services or lending to eligible banks through the discount window.**
4	How do the FOMC and the New York Fed work together to influence borrowing costs?	**The FOMC sets a target range for the federal funds rate. The New York Fed conducts open market operations to help keep the rate in that range, which can influence other borrowing costs.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

The Fed is not one office: it has a national Board of Governors and 12 regional Reserve Banks. The FOMC, which includes governors and Reserve Bank presidents, sets a target range for the federal funds rate, not each bank's loan rate. The New York Fed carries out trades to help keep that rate in the target range, which can influence other borrowing costs. Regional Reserve Banks provide payment services and share information from their districts.

Accept accurate descriptions of Fed components that connect each component to its work. Students should distinguish the Fed's influence on borrowing costs from directly setting an individual bank's loan rate.