

Name _____

Period _____

The Federal Reserve (aka The Fed)

Open and Operating: The Federal Reserve Responds to September 11

The Fed has six functions:

- 1) Clearing checks (Payment System)*
- 2) Federal government's fiscal agent (manages the Treasury bank account)*
- 3) Supervising member banks*
- 4) Regulating money supply*
- 5) Setting reserve requirements*
- 6) Supply paper currency*

This video shows how they were able to use these functions to maintain stability in our financial system after the attacks of September 11.

1. Why was it critical for the Federal Reserve to respond quickly after the attacks on September 11?

2. Why was the Federal Reserve started?

3. What was its purpose?

4. What was its mission?

5. Since then, what other roles have evolved for the Fed?

6. On 9/11, obviously, significant loss of life in New York and Washington was high on everyone's mind, but with respect to the Federal Reserve, the main issue had to do what?

7. In times of crisis, like 9/11, people need faith in their nation's financial system. One way to strengthen this faith is to provide liquidity, which simply refers to what?

8. Basically, the payments system refers to what?

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9. Why was preventing failures in the payment system important?

10. How well was Fedwire working after the attacks on September 11 ?

11. After checking Fedwire, what did the Fed concentrate on next?

12. Is it normal in a crisis situation or natural disaster for the general public to want to go out and get their hands on as much cash as possible?

13. What did the Fed want to avoid?

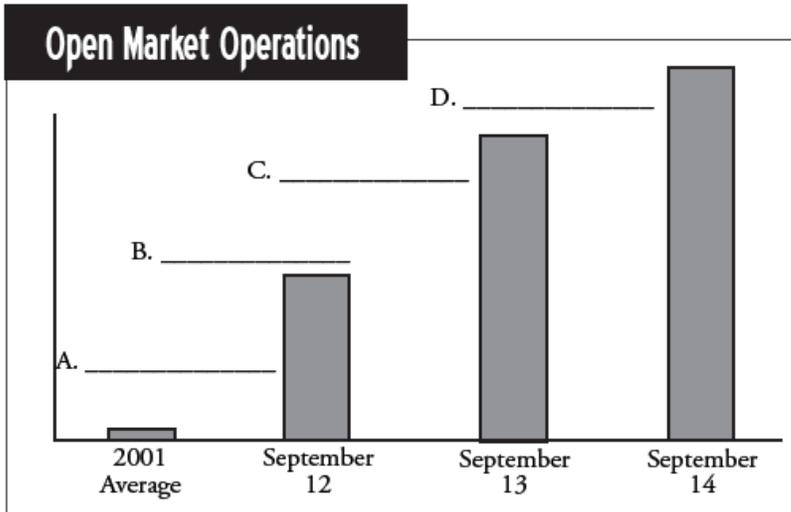
14. In Manhattan, all bridges and tunnels were closed, and the Fed was concerned that automated teller machines might run out of cash. To meet this potential shortage, how did the Federal Reserve Bank of New York get through to deliver more than 425 million dollars to local banks?

15. What is "float"?

16. On September 12, how much float was incurred?

17. How much more is this than the historical daily average?

18. Another tool the Fed uses to control liquidity is Open Market Operations. Every day, the trading desk at the Federal Reserve Bank of New York enters the market to buy or sell Treasury securities. If the Fed buys securities, money is put into the banking system – thus increasing liquidity. Conversely, if the Fed sells securities, money is taken out of the banking system. In the days after 9-11, the Fed wanted to increase liquidity and thus began buying securities in record amounts. On an average day in 2001, Open Market Operations injected between 2 and 8 billion dollars into the banking system. How much did they buy each day?



19. On Monday, September 17, what did the Federal Open Market Committee vote to lower?
20. What is the “funds rate”?
21. The rate was lowered three more times, the lowest in how many years?
22. What action taken by the Fed calmed the markets?
23. What is the benefit of a well-functioning central bank?
24. Explain the significance of the video’s title, Open and Operating.
25. How does a well-functioning central bank benefit you?