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.
YIKES... THAT WAS A CLOSE CALL.
I'LL SAY—BUT HOW DO WE PREVENT ANOTHER CRISIS?

IF ALL THE BANKS FAIL, I WON'T BE ABLE TO GET LOANS TO FINISH MY CONSTRUCTION PROJECTS AND WILL HAVE TO LAY OFF MY WORKERS!

PLUS EVERYONE WHO DEPOSITED MONEY IN A BANK ACCOUNT WILL LOSE THEIR SAVINGS! SO NO ONE WILL HAVE MONEY TO SPEND. ALL OF OUR BUSINESSES WILL COLLAPSE!

A BANKING CRISIS WOULD BECOME AN ECONOMIC CRISIS, AFFECTING JOBS, WAGES, PRICES... EVERYTHING!

HOW CAN WE KEEP OUR ECONOMY STRONG?

WELL, ALONG WITH ACTING AS THE LENDER OF LAST RESORT IN A CRISIS, THE CENTRAL BANK OF NOVUS SHOULD ALSO AIM TO KEEP OUR ECONOMY STABLE AND GROWING.

THAT COULD REALLY HELP PREVENT A CRISIS FROM HAPPENING IN THE FIRST PLACE.

AND CAN YOU TELL THE FOLKS AT HOME HOW YOU PLAN TO GET STARTED?

CENTRAL BANK: A PLAN

THIS IS EXACTLY WHAT WE NEED!

CENTRAL BANK: A PLAN

CENTRAL BANK: A PLAN
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!
THE THREE ADVENTURERS WILL TRAVEL AT WARP SPEED, CLEAR ACROSS THE UNIVERSE TO PLANET EARTH AND THE UNITED STATES OF AMERICA.

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.

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.

NEXT STOP... PLANET EARTH!
THE FED IS DIFFERENT FROM REGULAR BANKS—IT'S A BANK TO THE BANKS AND A BANK TO THE U.S. GOVERNMENT. BANKS KEEP DEPOSITS, OR RESERVES, AT THE FED, AND SOMETIMES THEY WILL BORROW MONEY FROM THE FED, JUST LIKE PEOPLE BORROW MONEY FROM REGULAR BANKS.

WHY ARE YOU SINGING?

THE FED ALSO HOLDS AN ACCOUNT FOR THE GOVERNMENT AND PROVIDES IT WITH OTHER SERVICES, JUST LIKE BANKS DO FOR INDIVIDUALS AND BUSINESSES.

*CLICK*—THE UNITED STATES FEDERAL RESERVE SYSTEM WAS CREATED BY CONGRESS IN 1913.

CREATED BY CONGRESS IN 1913!

THE FED WAS NOT THE NATION’S FIRST ATTEMPT AT CREATING A CENTRAL BANK. THE FIRST BANK OF THE UNITED STATES WAS FOUNDED BY ALEXANDER HAMILTON IN 1791. THEN, A SECOND BANK OF THE UNITED STATES WAS ATTEMPTED IN 1816. NEITHER LASTED.

SOME WILD TIMES!

YOU HAVE A LOVELY SINGING VOICE GLIX, BUT I'M TRYING TO HEAR THE INFORMATION.

REMEMBER BACK ON PLANET NOOUS, WHEN BANKS RAN OUT OF MONEY AND COULDN'T MAKE NEW LOANS? THAT HAPPENED ON EARTH TOO!

BANK RUNS AND PANICS WERE COMMON, AND WHEN BANKS WERE UNABLE TO PAY DEPOSITORS OR MAKE NEW LOANS, THE ECONOMY WAS REGULARLY AT RISK OF COLLAPSING INTO A RECESSION.*

THESE PANICS, ESPECIALLY THE PANIC OF 1907, FINALLY CONVINCED THE GROWING NATION OF THE NEED FOR A CENTRAL BANK.

IN 1913, THE UNITED STATES CONGRESS PASSED THE FEDERAL RESERVE ACT. PRESIDENT WOODROW WILSON SIGNED THE ACT INTO LAW AND THE FEDERAL RESERVE SYSTEM WAS BORN!

*A RECESSION IS A SIGNIFICANT DECLINE IN ECONOMIC ACTIVITY, SPREAD ACROSS THE ECONOMY, LASTING MORE THAN A FEW MONTHS.
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.

Fascinating!

Hey, where did you two get pizza?

This is begging to be set to music.

The final piece of information we have in our database is this diagram—the structure of the Federal Reserve System:

3 KEY ENTITIES

FEDERAL RESERVE BOARD OF GOVERNORS
12 FEDERAL RESERVE BANKS
FEDERAL OPEN MARKET COMMITTEE (FOMC)

Looks like it's up to us to find out the rest!

Pardon me, everybody, but where would you like me to park?

We've arrived!
PEOPLE OF EARTH!

I CAN'T BELIEVE I AGREED TO THIS.

IT'S OKAY, RALLO, JUST TRY AND BLEND IN LIKE ME.

IF YOU SAY SO BUDDY...

ALL RIGHT TEAM, WE HAVE OUR ASSIGNMENTS...

LET'S GET TO IT!
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.
Flora went straight to work on producing a video report about how the Federal Reserve conducts monetary policy.

Hi Novus! It’s Flora reporting from Earth about the Federal Reserve System.

The Fed acts as lender of last resort for banks with short-term needs and it supervises banks to try to prevent problems in the first place.

It can also help keep the economy running smoothly, and prices stable, by affecting the amount of money and credit that flows through the economy—that’s monetary policy!

One tool the Fed uses to conduct monetary policy is called the "Discount Window." It’s where banks can obtain short-term loans from the Fed.

A bank can get a loan in exchange for collateral, or property that the Fed can keep or sell if the bank cannot pay back its loan.

Interest rates are the price of credit. Credit is the ability to obtain goods, money, or services in return for a promise to pay at some later date—the higher the price, the lower the demand.

The Fed has several tools it can use to raise or lower interest rates, which affects the amount of lending and spending that goes on in the economy.

The Fed has to walk a fine line. Too much lending can cause overspending and rising prices—inflation—and even a crisis if the boom goes bust.

Amount of lending and interest rates

Thanks! I can pay you back soon—with interest. Then you can return my collateral.

That’s when raising interest rates can help bring spending back to normal and stabilize prices.
...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 LAYED OFF AND PRICES ARE FALLING. LET'S STIMULATE THE ECONOMY BY LOWERING INTEREST RATES.

NOW THE ECONOMY'S OVERTHEATING 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.
IT'S NOT ALWAYS EASY FOR MEMBERS OF THE FOMC TO KNOW WHAT NEEDS TO BE DONE OR WHEN TO DO IT. AFTER ALL, POLICY CHANGES DON'T IMMEDIATELY BRING ABOUT A CHANGE IN THE ECONOMY. THAT CAN TAKE SEVERAL MONTHS.

CONDUCTING MONETARY POLICY IS LIKE NAVIGATING A SUPERTANKER...

...AND IMPLEMENT YOUR CORRECTIONS GRADUALLY. THE FED HAS TO PREDICT WHERE THE ECONOMY WILL BE MONTHS AHEAD BEFORE DECIDING WHERE TO TARGET INTEREST RATES TODAY.

MONTHS AWAY NOW

NOW

"WILL THE WATERS BE ROUGH AND CHOPPY OR WILL IT BE SMOOTH SAILING? DO WE NEED TO ADJUST OUR DIRECTION AND, IF SO, HOW?" THESE ARE KEY QUESTIONS ASKED BY THE FED.

AND THAT'S A WRAP!

HMM, WHAT'S ALL THAT GOING ON OVER THERE?

ERM... LIGH...

HEY, RALLO. WHAT'S GOING ON?

OH, HI FLORA!
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...

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

DO YOU NEED A HAND WITH ANY OF THIS?

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

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

WOW, RALLO!
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.
Supervision occurs on both a small and a large scale.

The Fed supervisors—along with supervisors from other agencies—focus on individual banks, while also looking at the financial system as a whole.

This is mighty informative. Rallo! I think I'm getting it!

Wait 'til you see my final set!

Federal Reserve supervisors also assess the riskiness of the loans that banks have made. They review whether or not banks have enough of their own money—or capital—on hand. These assessments are called "stress tests."

Stress tests show how banks would perform in crisis-like situations. If a bank flunks the tests, its owners might have to invest more capital to protect it from failing in a real-life situation.

Oh no, is that set piece breaking?!
DON’T WORRY, THIS IS JUST A TEST!

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

WHO'D YOU HAVE IN MIND?

I WAS THINKING MAYBE... BRAD?

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

BRAD?!!! YOU’VE HEARD OF HIM?? HE’S EVERYWHERE! HE MUST BE THE BIGGEST ACT ON EARTH RIGHT NOW.

I KNOW!

I KNOW!

IS THERE A MR. RALLO HERE?

HE HAS?!

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

"SULP!" GOOD QUESTION. I HAVE NO IDEA!!

RIGHT THIS WAY, PLEASE.

WOW...
GUYS, IT'S ME.

GLIX?????

YOU'RE BRAD??!

YUP.

BUT, HOW??

I'M NOT REALLY SURE HOW IT HAPPENED MYSELF... AFTER WE SEPARATED, I WENT TO A BOOKSTORE TO RESEARCH THE FED'S ROLE IN KEEPING CASH IN CIRCULATION AND PROVIDING OTHER PAYMENT SERVICES...

BUT I REALIZED THAT BLENDING IN AMONG THE EARTHEINGS WOULDN'T BE SO EASY FOR ME. I NEEDED A DISGUISE.

SO I FOUND SOMETHING SUBTLE AND HEADED BACK TO THE BOOKSTORE.

AS YOU KNOW, I REMEMBER THINGS BETTER WHEN I SING.

THE FEDERAL RESERVE PROVIDES SEVERAL IMPORTANT FINANCIAL SERVICES...

...INCLUDING DISTRIBUTING AND ACCEPTING DEPOSITS OF DOLLAR BILLS AND COINS, COLLECTING CHECKS, AND ELECTRONICALLY TRANSFERRING FUNDS FOR BANKS.

IT'S UP TO THE FED TO MAKE SURE THAT THE RIGHT AMOUNT OF CURRENCY AND COINS ARE IN CIRCULATION...

WOW, WHAT A VOICE! IT'S LIKE NOTHING I'VE EVER HEARD BEFORE.
OCCasionally, banks have more cash on hand than they need to meet their customers’ demands. At other times, banks may not have enough—like holidays and summer vacations, when people may need more cash than usual.

[AN ORIGINAL LOOK, A GREAT VOICE—HE’S THE WHOLE PACKAGE!]

The reserve banks help banks to meet these fluctuating currency needs by storing banks’ excess currency as well as replenishing their stock as required.

Kid, I want to sign you to a recording contract.

What’s that?

Showbiz

I want to pay you to sing.

Well... okay, as long as I can keep singing about financial services.

Deal! You handle the music. I’ll take care of everything else... say, what’s your name, anyway?

Glix.

Boring! From now on, you’re... Brad!

Uh, okay.

So I went into a recording studio...

The Federal Reserve System operates a nationwide system for processing and collecting checks electronically.

...Then we cut an album...

The Fed also facilitates very large payments between banks and other financial institutions. It’s costly—and risky—to make such payments in cash. So the Fed provides such payments through wire, or electronic, transfers instead.

Financial Services

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

BRAD: I'M NOT SURE I LIKE THIS.

NEWSPAPER MAN: THEN WE'LL TRY SOMETHING ELSE.

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


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...
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.
LATER THAT EVENING...

WILL THAT BE ALL SIR?
I THINK SO.

BRAH CONTINUED TO WOW CROWDS TONIGHT IN OUR NATION'S CAPITAL...

DO YOU HAVE ANY DIAMONDS?
GO FISH!

THE KITCHEN WANTS ME TO TELL YOU TO SAVE SOME ICE CREAM FOR THE OTHER GUESTS.

OKAY, FIIIIINE...

BZZZT!!

HEY EVERYBODY! ARE WE HAVING A CENTRAL BANKING SYSTEM, OR WHAT?!

ON OUR WAY. MADAME PRESIDENT!

WE WERE, UH... JUST ABOUT TO LEAVE!

STARTING UP THE SPACESHIP NOW!

WONDERFUL—WE ARE ALL SO EXCITED TO SEE YOUR PRESENTATIONS!

HEY! SUPERSTAR! LET'S GO!!
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.

SUPERVISION
a film by RALLO

FLORA EXPLAINED HOW THE FED SETS MONETARY POLICY.

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

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.

AND GLIX... I MEAN BRAD... SANG ABOUT THE FINANCIAL SERVICES THE FED PROVIDES.
Next Lesson:
An In-Depth Look at Monetary Policy...
FOR MORE INFORMATION ABOUT THE NEW YORK FED’S OUTREACH & EDUCATION, VISIT:

NEWYORKFED.ORG/OUTREACH-AND-EDUCATION