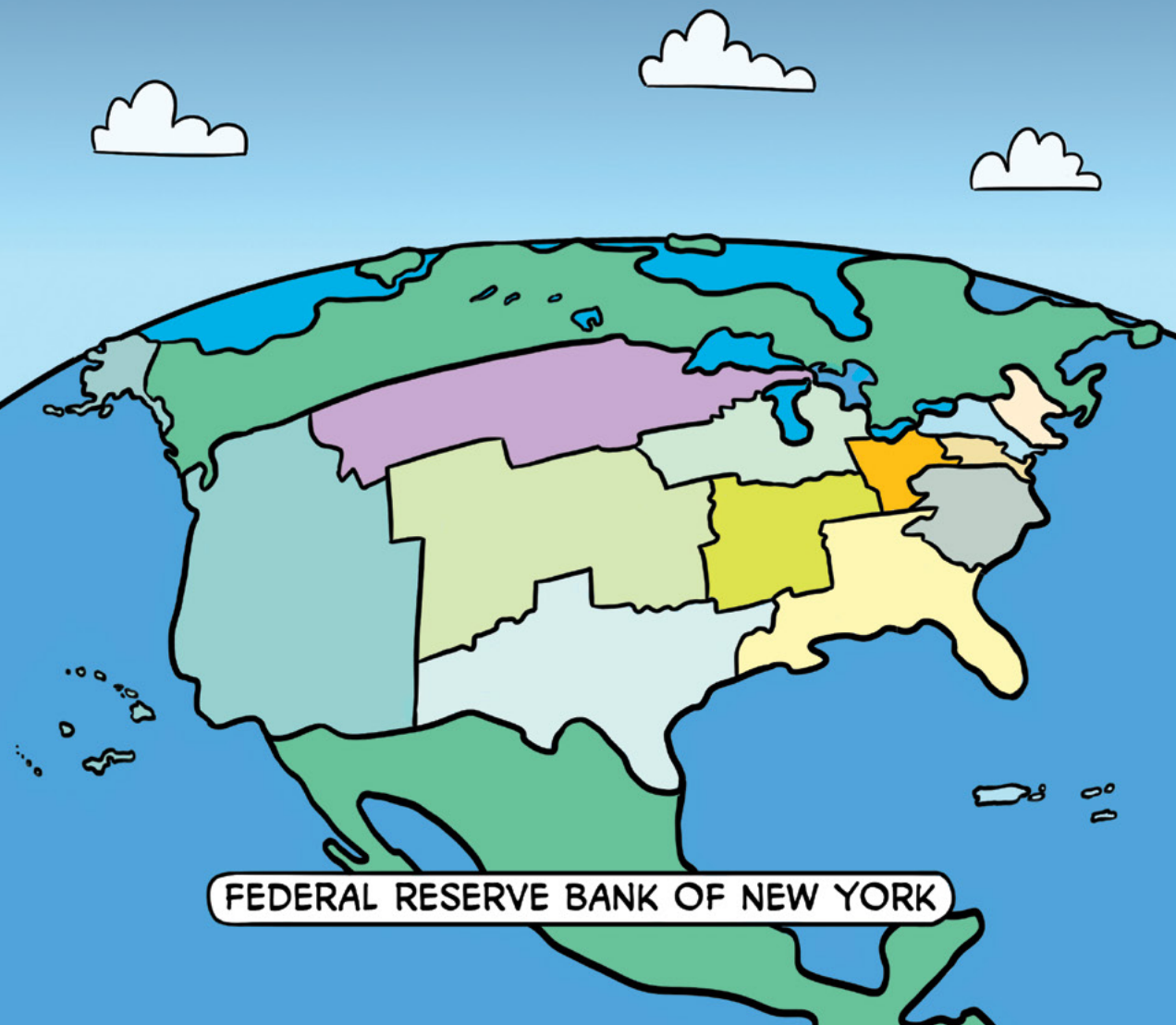


The **STORY** of the
**FEDERAL
RESERVE
SYSTEM**



FEDERAL RESERVE BANK OF NEW YORK

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!

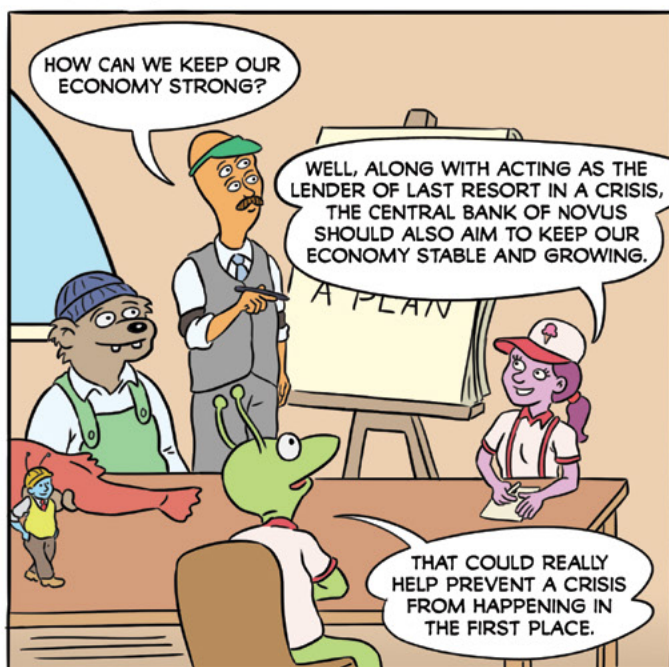


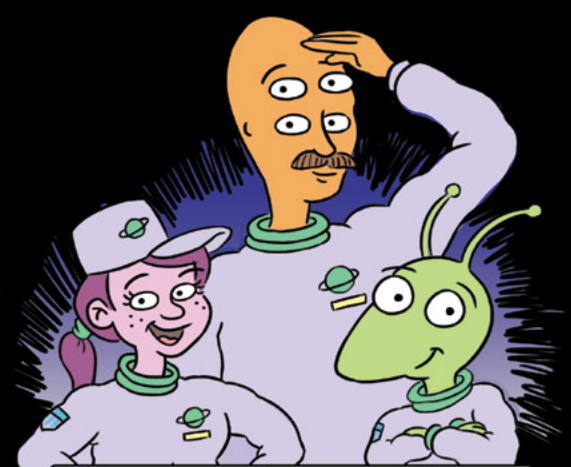
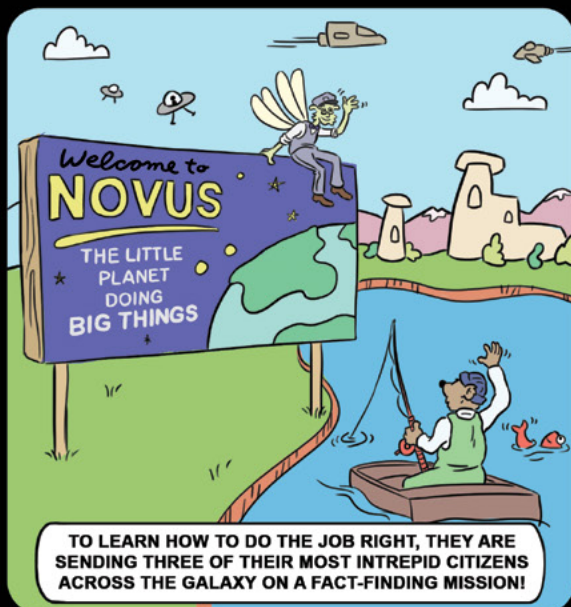
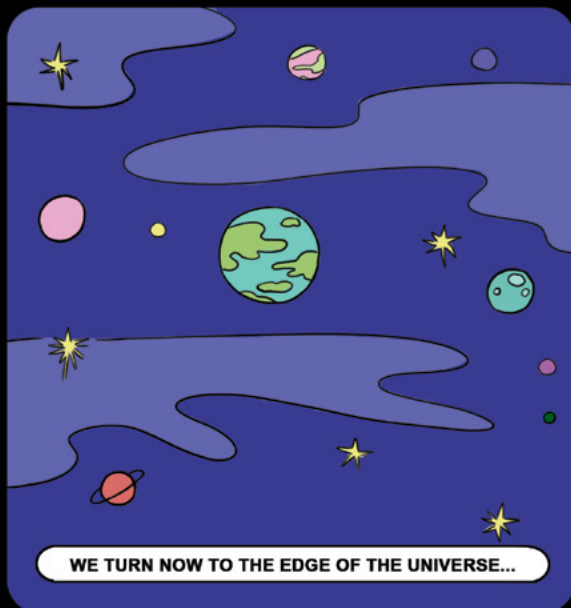
INSTEAD, THE CITIZENS OF NOVUS DECIDED
TO COME TOGETHER AND CREATE A CENTRAL
BANK TO LOAN MONEY TO OTHER BANKS — TO
ACT AS A LENDER OF LAST RESORT.*



THIS NEW CENTRAL BANK OF NOVUS WOULD HELP
STRUGGLING BANKS CONTINUE TO LEND AND PAY
DEPOSITORS BACK—AVOIDING CATASTROPHE.

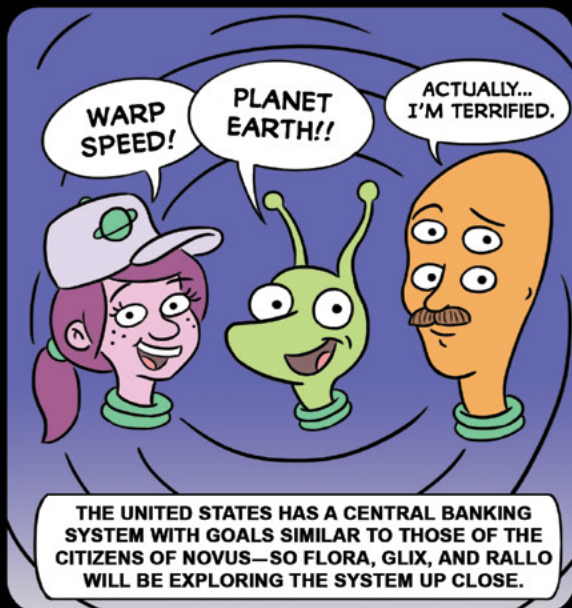
*A LENDER OF LAST RESORT, USUALLY A COUNTRY'S CENTRAL BANK, PROVIDES LOANS TO BANKS AND OTHER ELIGIBLE INSTITUTIONS THAT ARE EXPERIENCING TEMPORARY FINANCIAL PROBLEMS BUT ARE CONSIDERED FUNDAMENTALLY SOUND, OR ABLE TO PAY THEIR DEBTS.

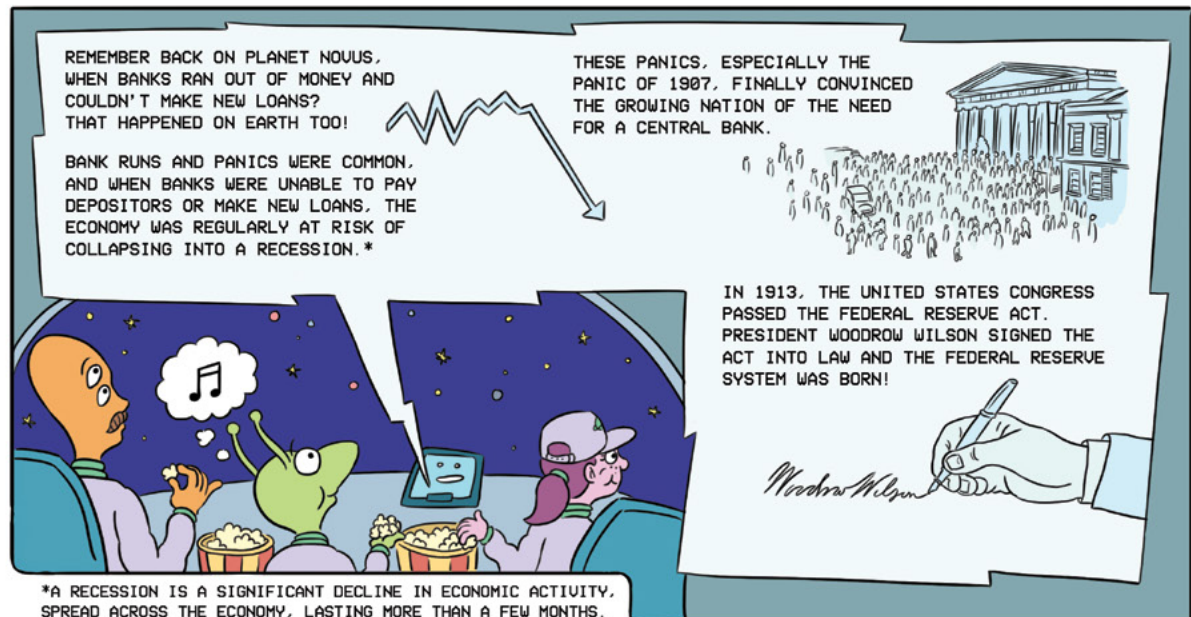
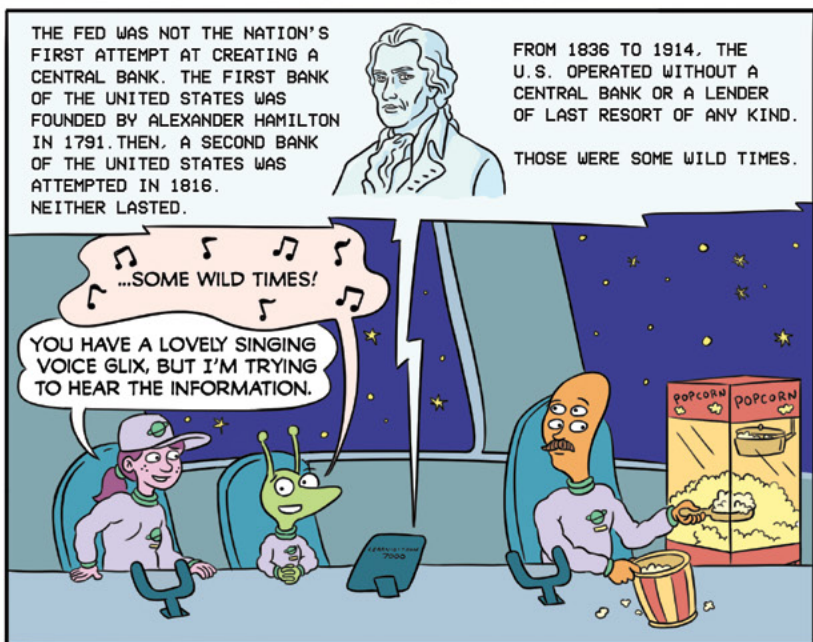
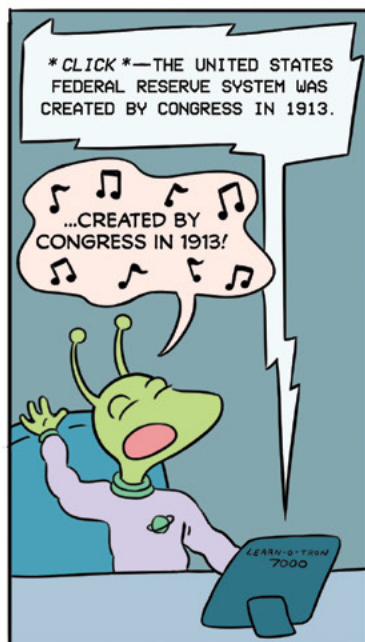
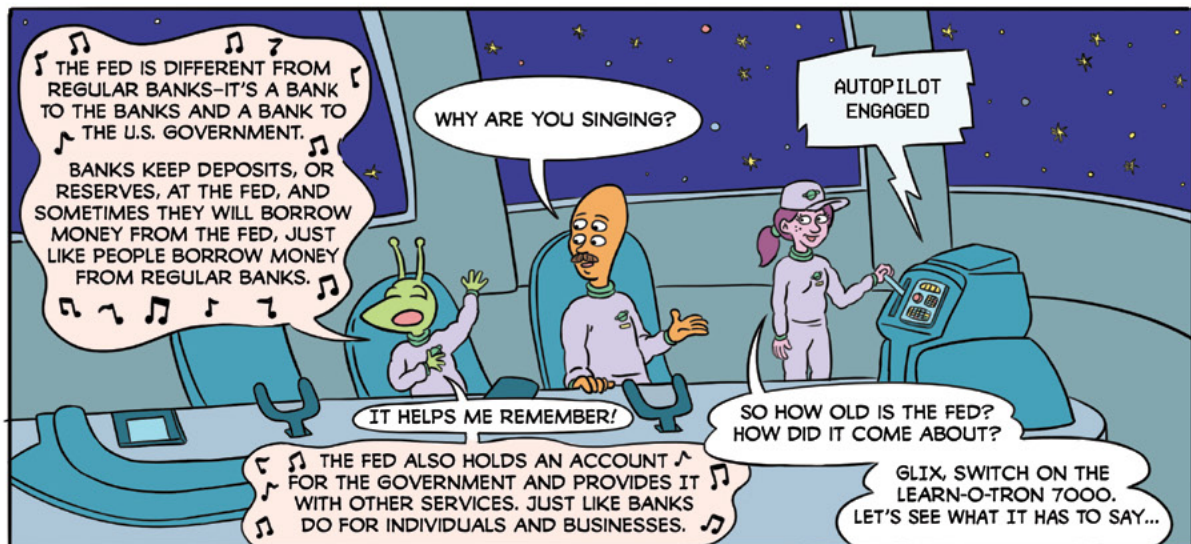




AND WHAT FEARLESS DAREDEVILS WOULD VOLUNTEER FOR SUCH A JOURNEY?

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!





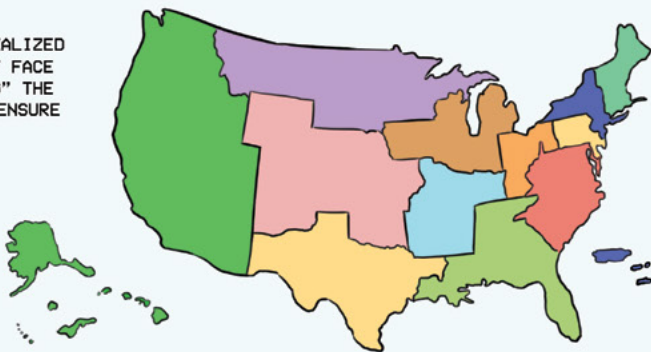
ALTHOUGH THE FED IS CALLED A CENTRAL BANK, IT IS ACTUALLY DECENTRALIZED. THAT MEANS, INSTEAD OF ESTABLISHING JUST ONE BIG BANK LOCATED IN THE NATION'S CAPITAL, THE UNITED STATES WAS DIVIDED INTO TWELVE DISTRICTS, EACH WITH ITS OWN RESERVE BANK. THIS SYSTEM IS DIFFERENT FROM OTHER CENTRAL BANKS OF MANY 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.



THE FINAL PIECE OF INFORMATION WE HAVE IN OUR DATABASE IS THIS DIAGRAM—THE STRUCTURE OF THE FEDERAL RESERVE SYSTEM:

3
KEY
ENTITIES



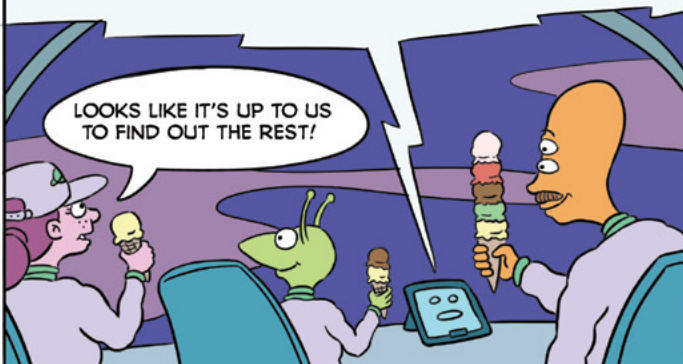
FEDERAL
RESERVE BOARD
OF GOVERNORS

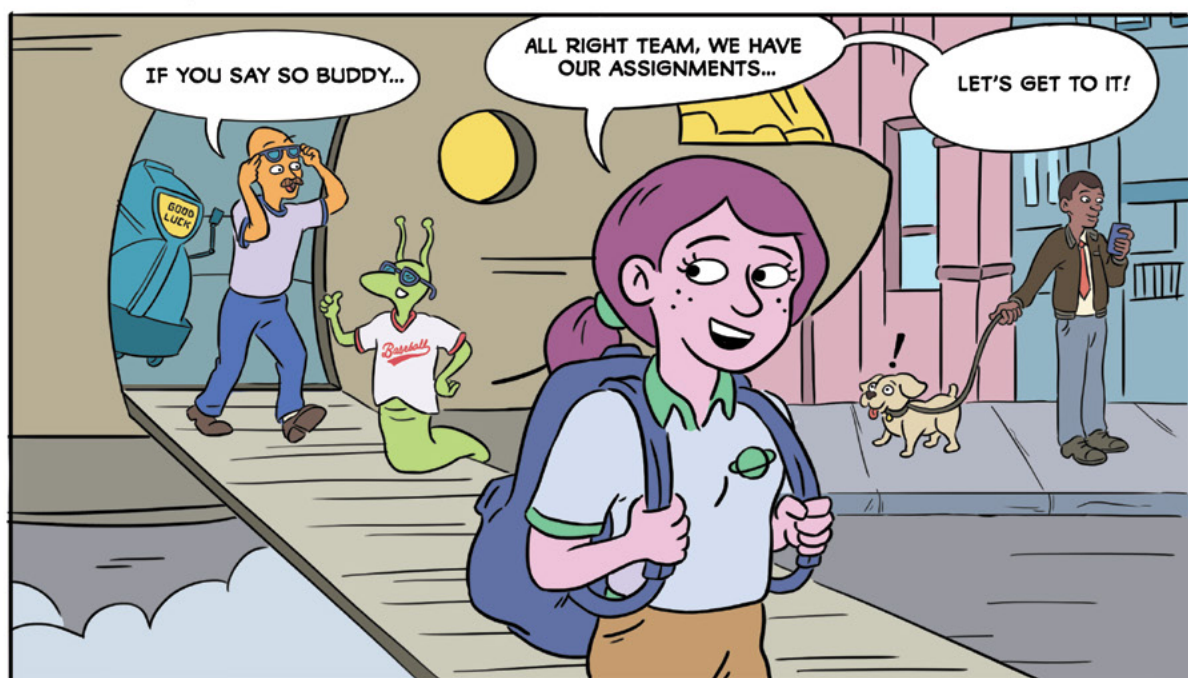
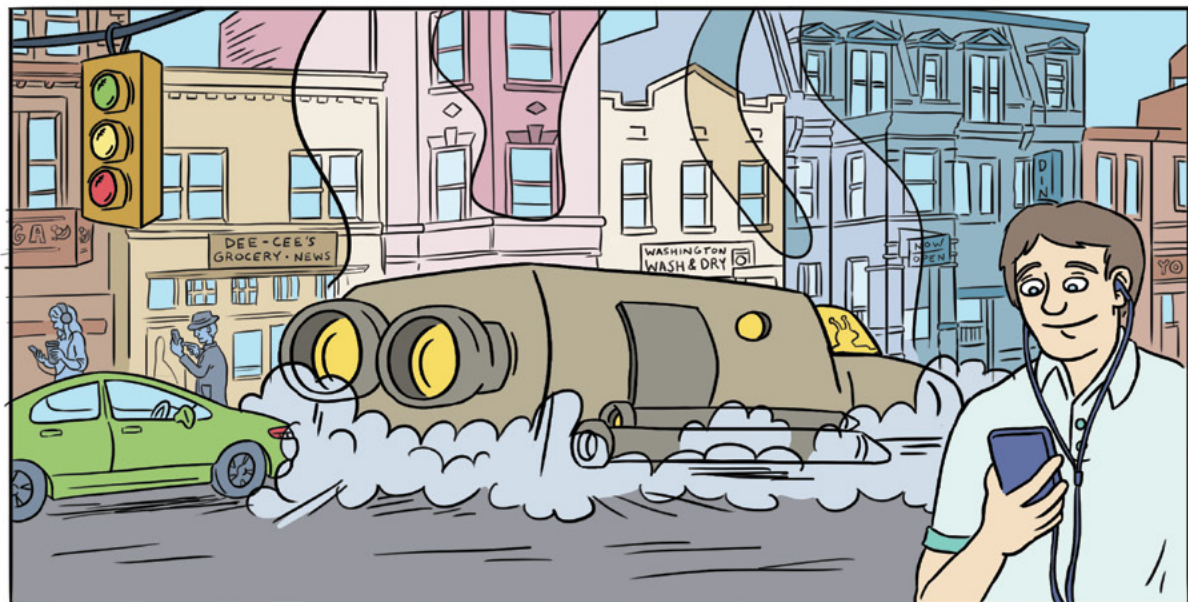


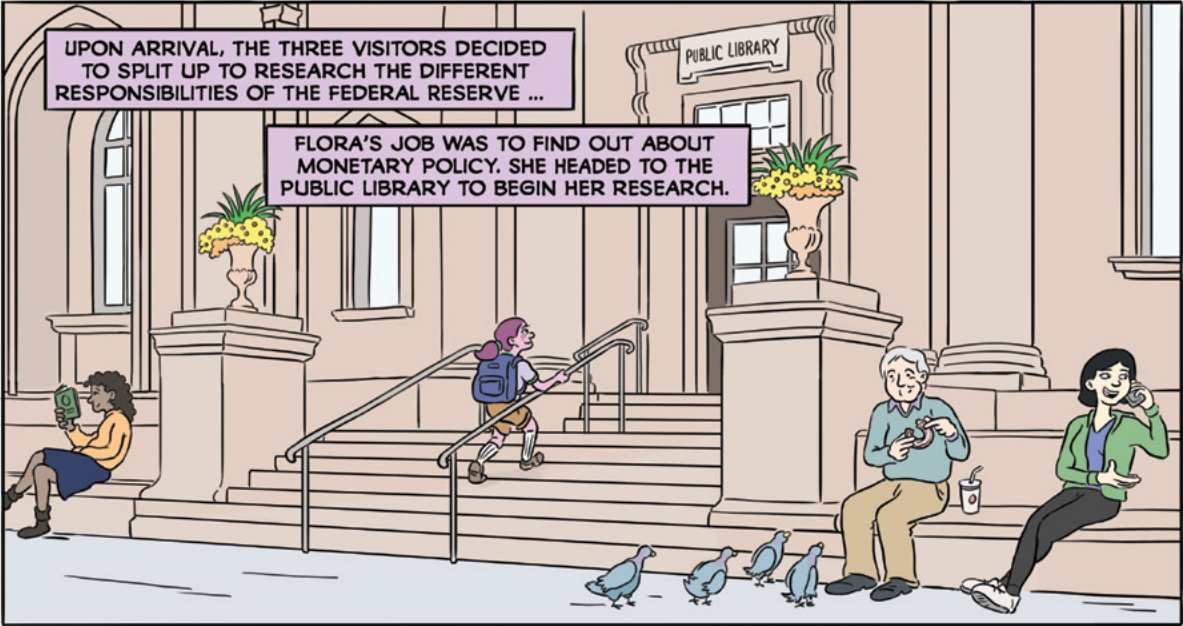
12 FEDERAL
RESERVE
BANKS



FEDERAL
OPEN MARKET
COMMITTEE
(FOMC)







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.

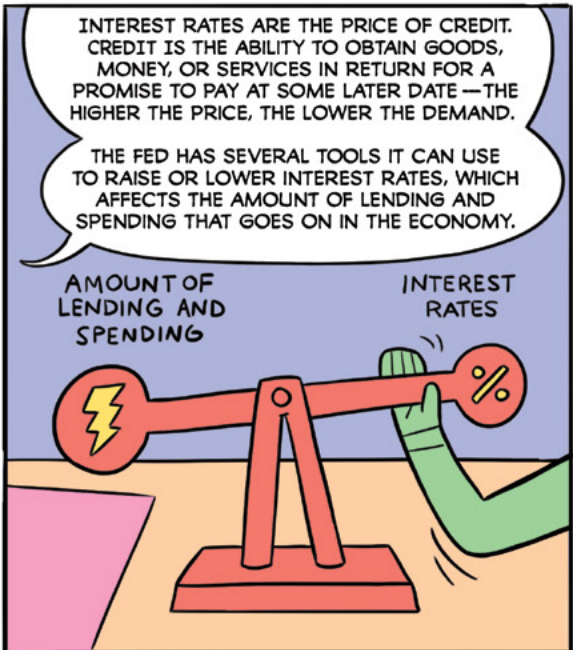
IT CAN ALSO HELP KEEP THE ECONOMY RUNNING SMOOTHLY, AND PRICES STABLE, BY AFFECTING THE AMOUNT OF MONEY AND CREDIT THAT FLOWS THROUGH THE ECONOMY—THAT'S MONETARY POLICY!



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.

THANKS! I CAN PAY YOU BACK SOON—WITH INTEREST. THEN YOU CAN RETURN MY COLLATERAL.

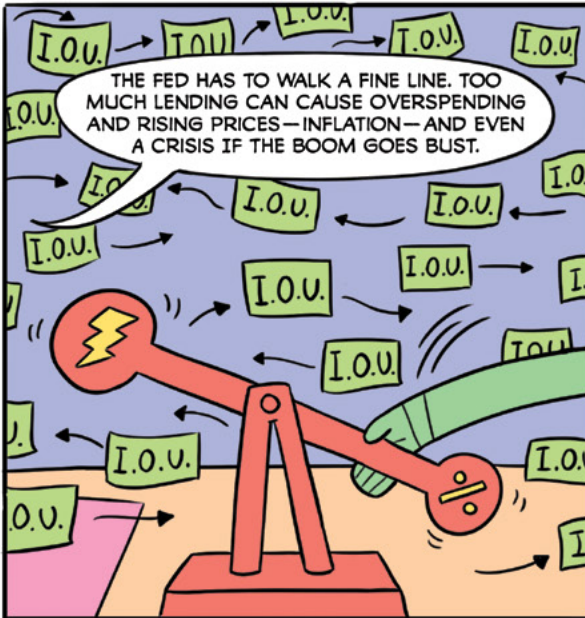


INTEREST RATES ARE THE PRICE OF CREDIT. CREDIT IS THE ABILITY TO OBTAIN GOODS, MONEY, OR SERVICES IN RETURN FOR A PROMISE TO PAY AT SOME LATER DATE—THE HIGHER THE PRICE, THE LOWER THE DEMAND.

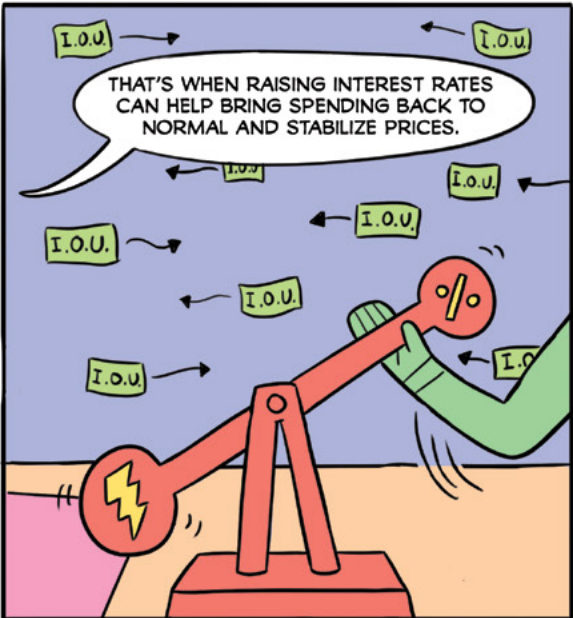
THE FED HAS SEVERAL TOOLS IT CAN USE TO RAISE OR LOWER INTEREST RATES, WHICH AFFECTS THE AMOUNT OF LENDING AND SPENDING THAT GOES ON IN THE ECONOMY.

AMOUNT OF LENDING AND SPENDING

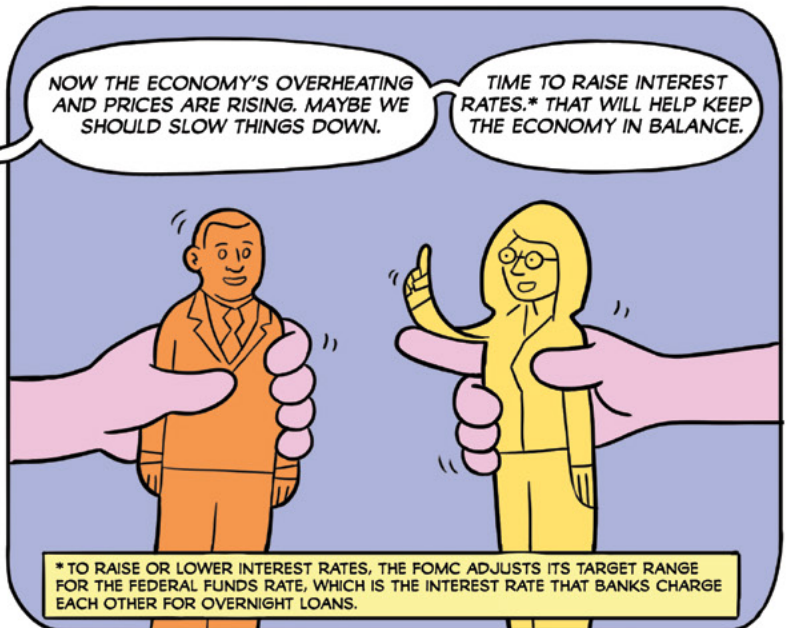
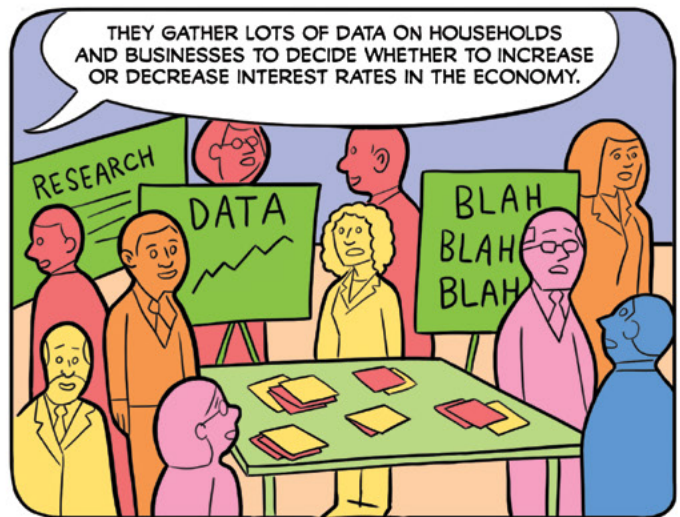
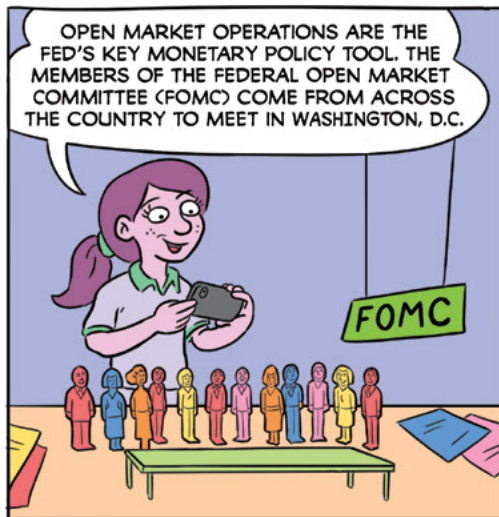
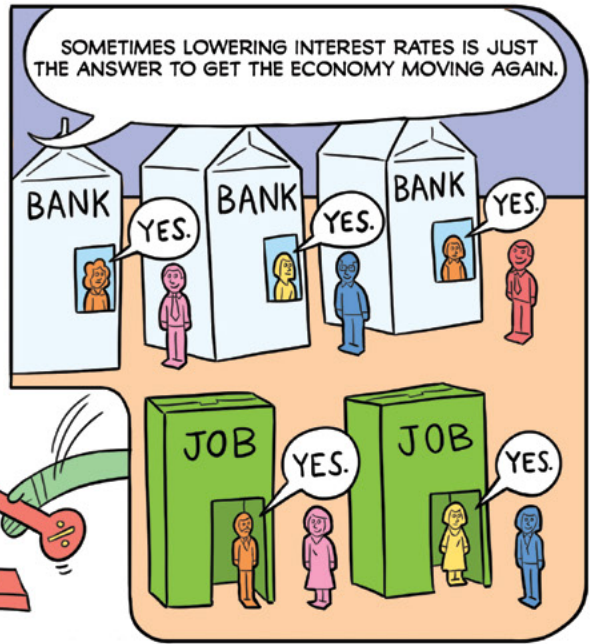
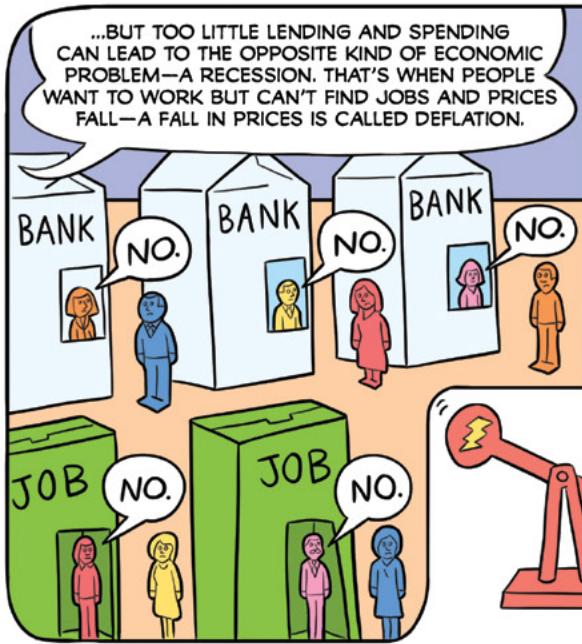
INTEREST RATES

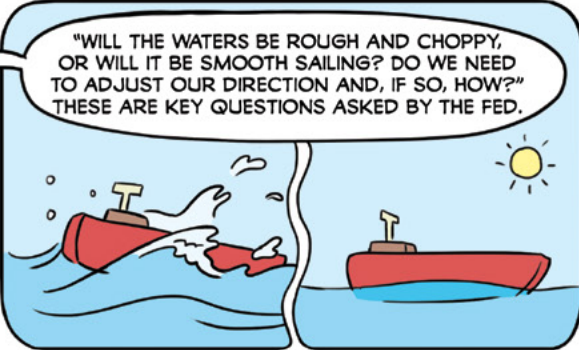
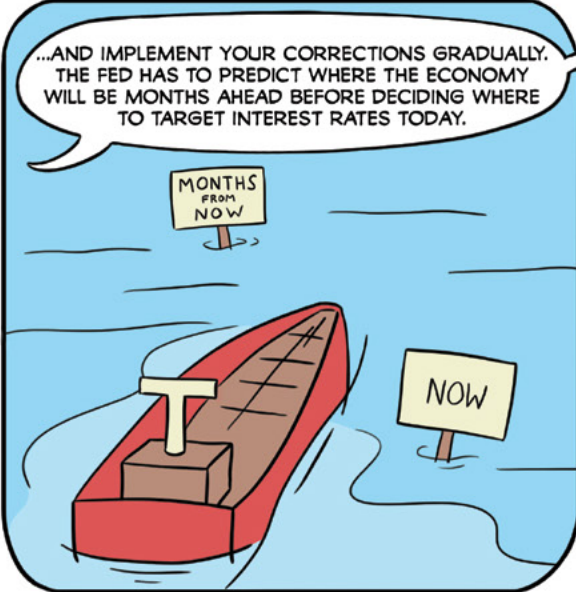
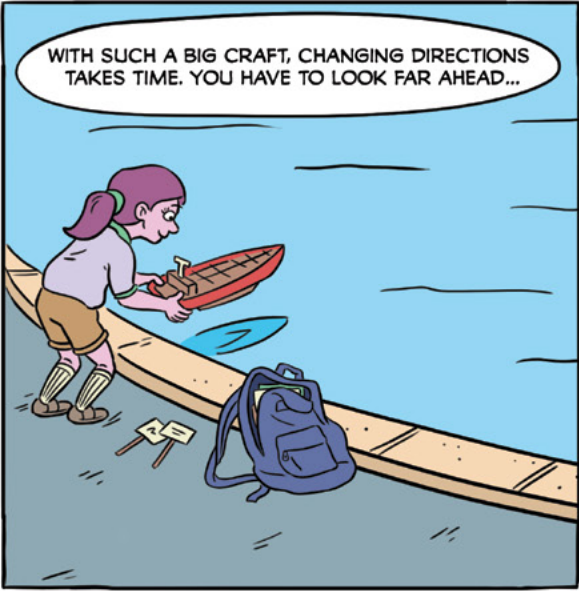


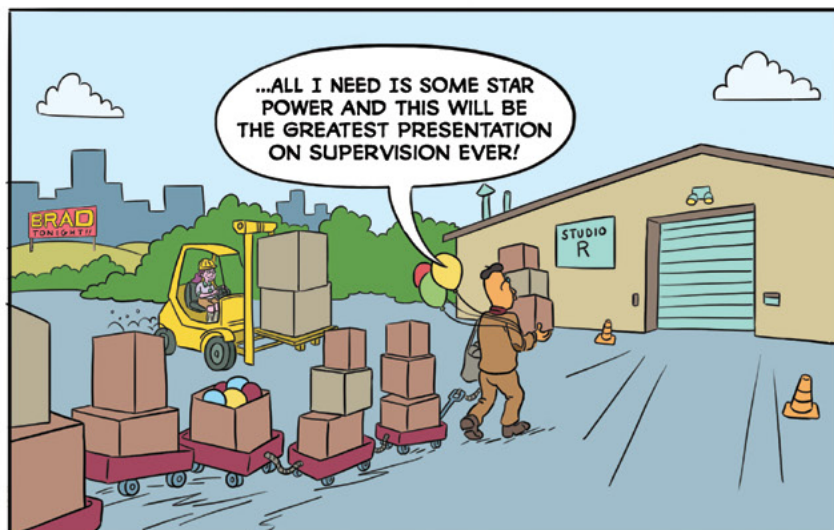
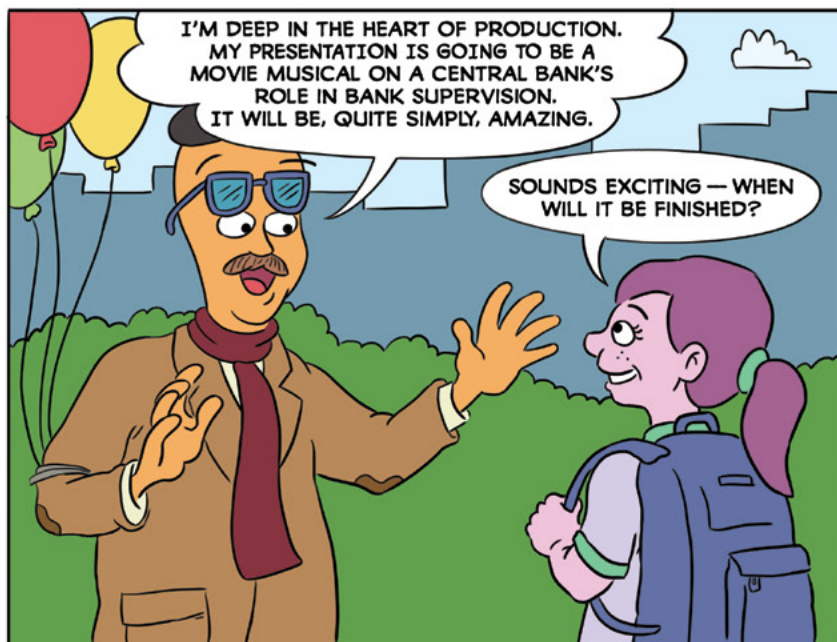
THE FED HAS TO WALK A FINE LINE. TOO MUCH LENDING CAN CAUSE OVERSPENDING AND RISING PRICES—INFLATION—AND EVEN A CRISIS IF THE BOOM GOES BUST.

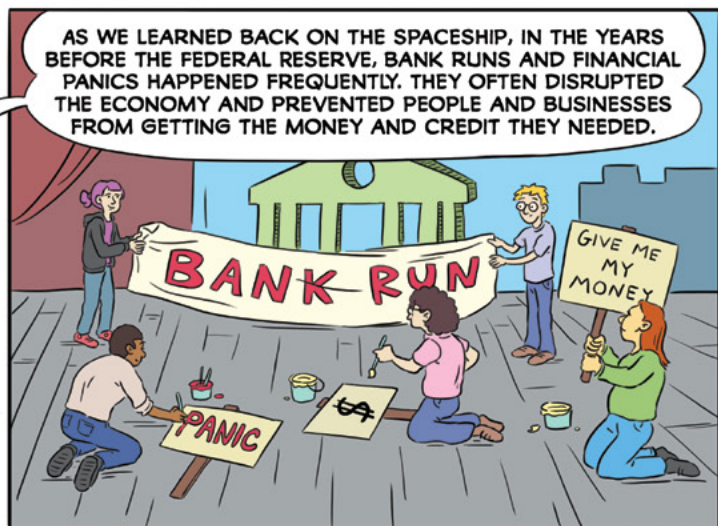


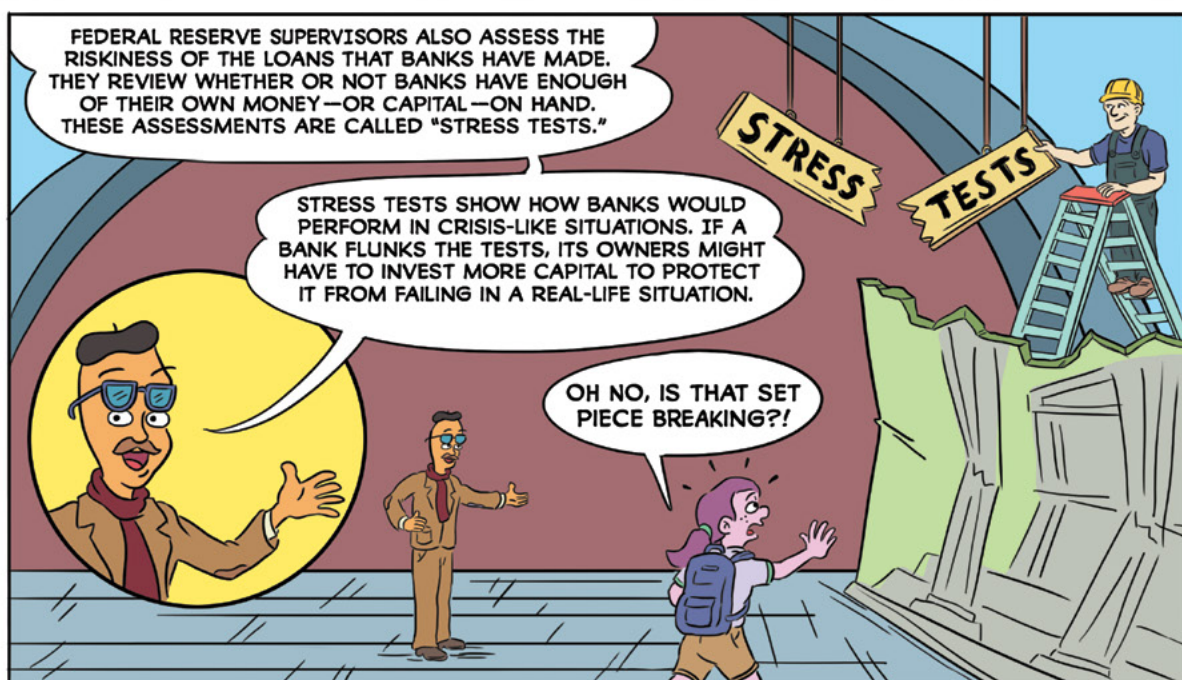
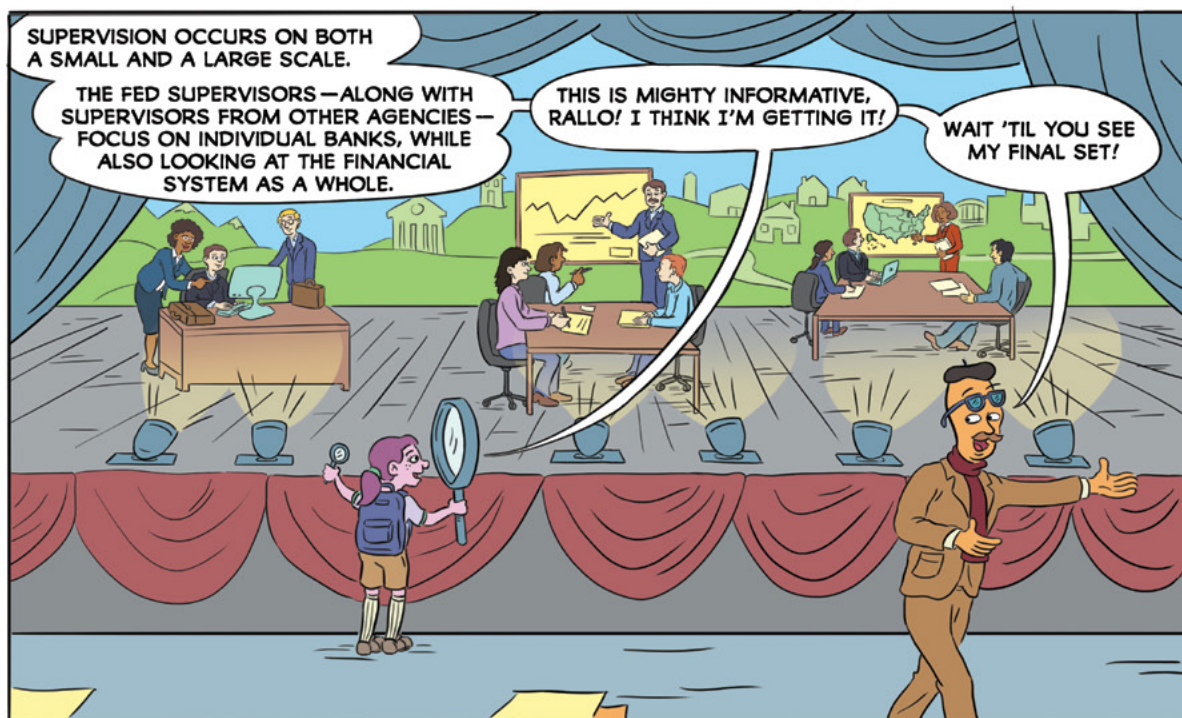
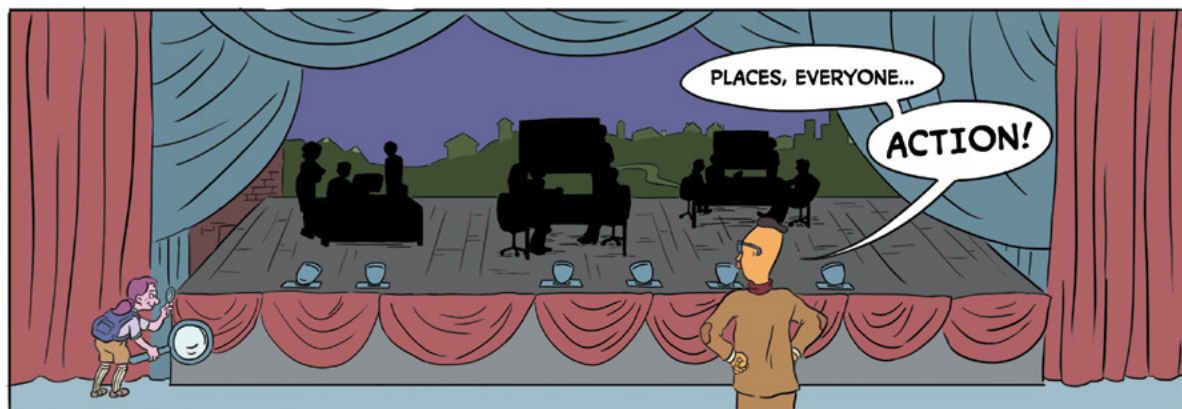
THAT'S WHEN RAISING INTEREST RATES CAN HELP BRING SPENDING BACK TO NORMAL AND STABILIZE PRICES.

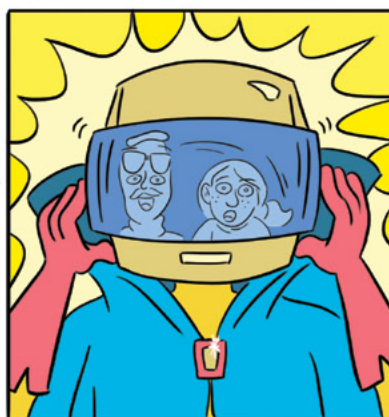
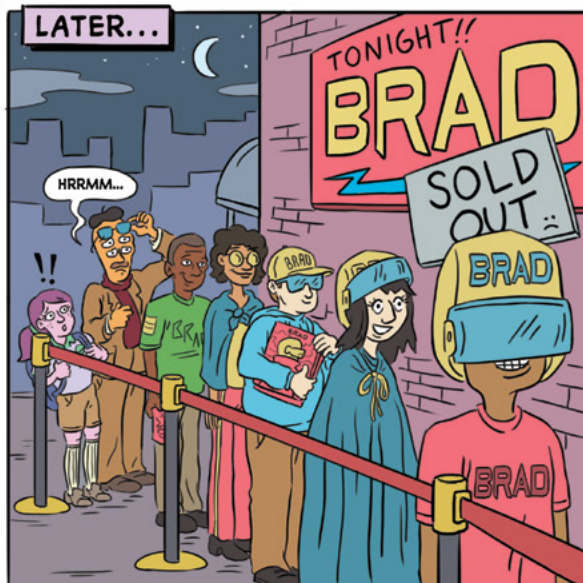
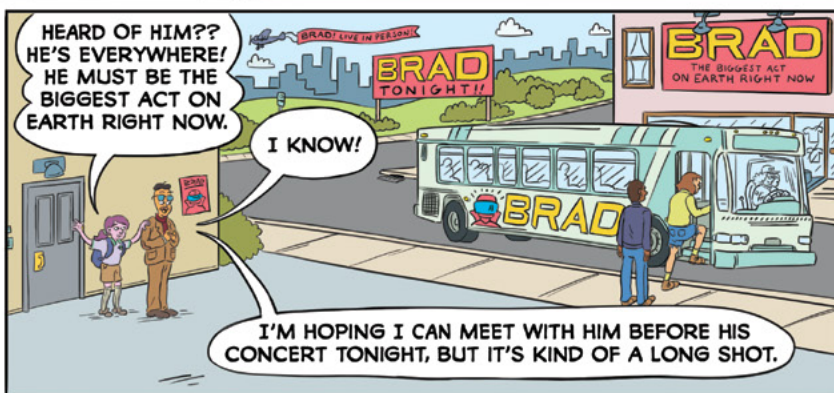
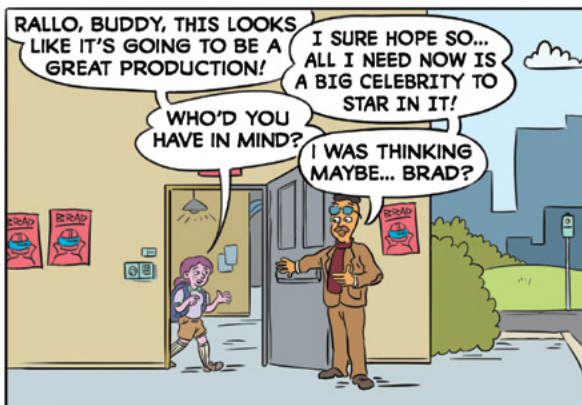


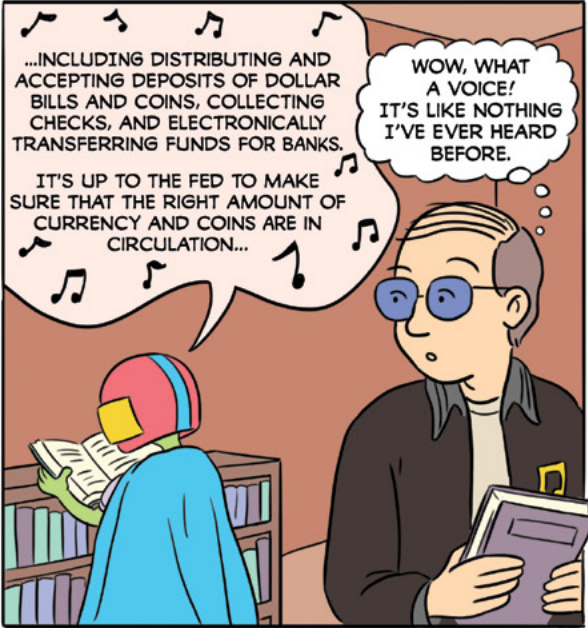
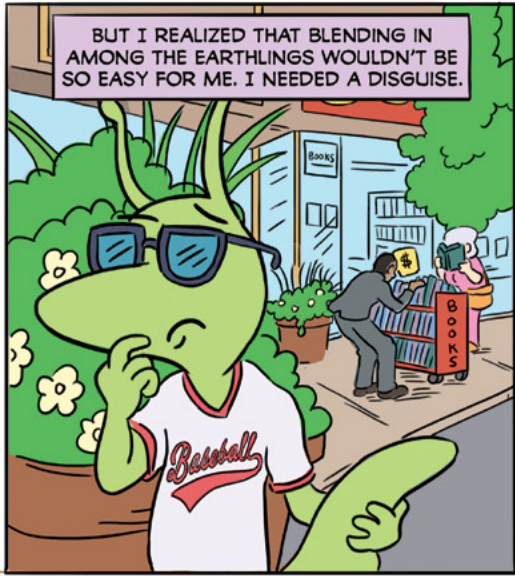
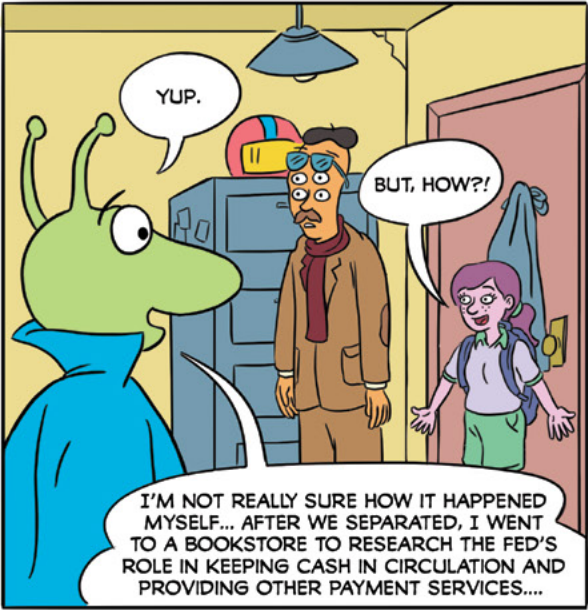


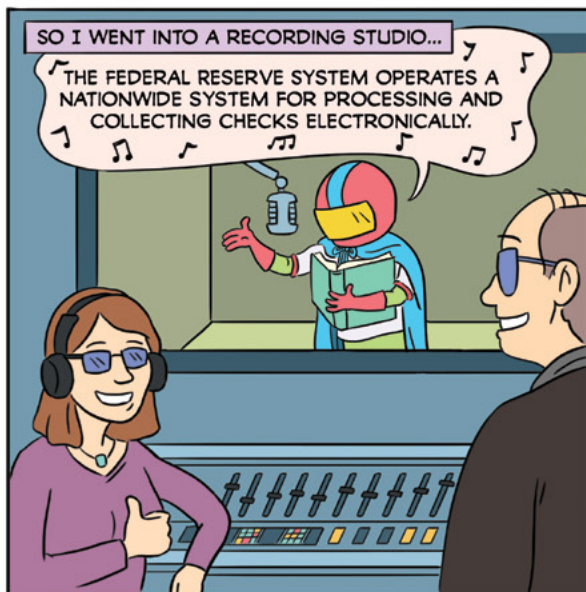
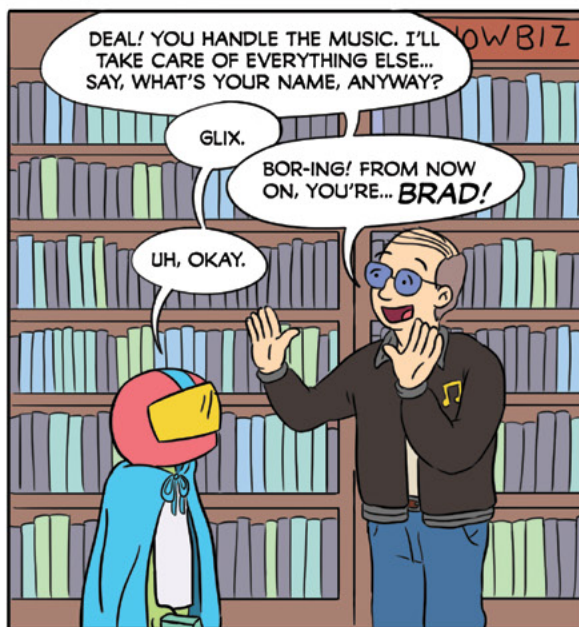
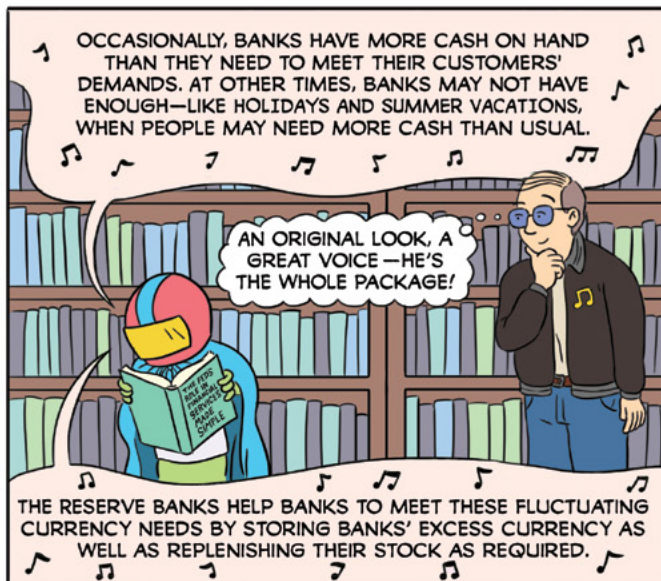


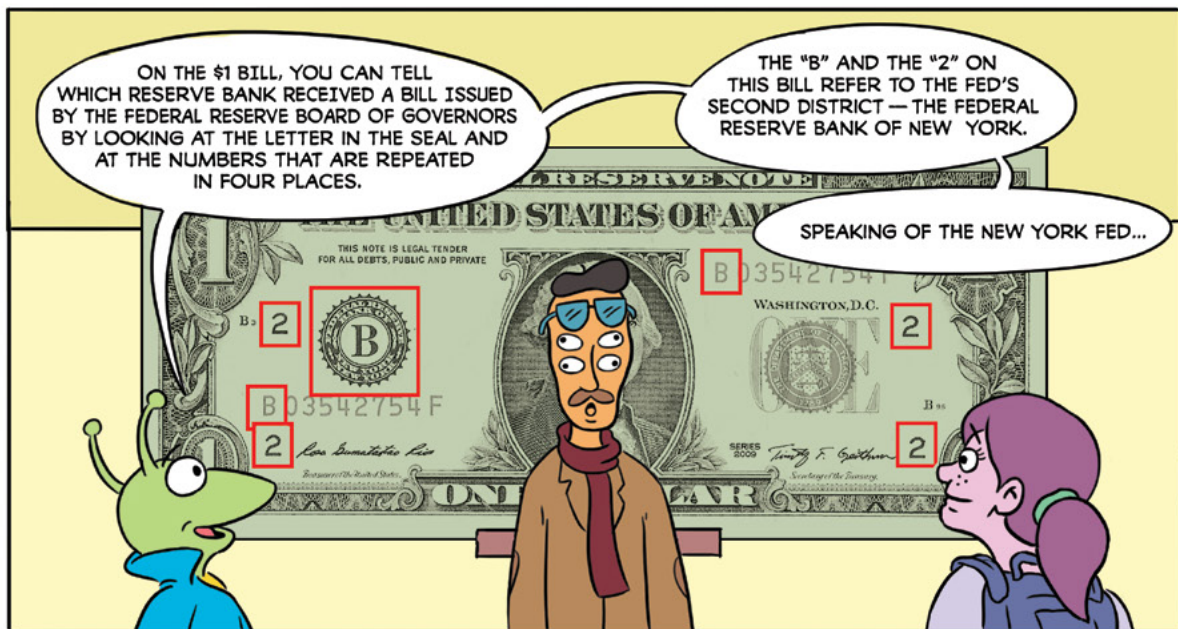
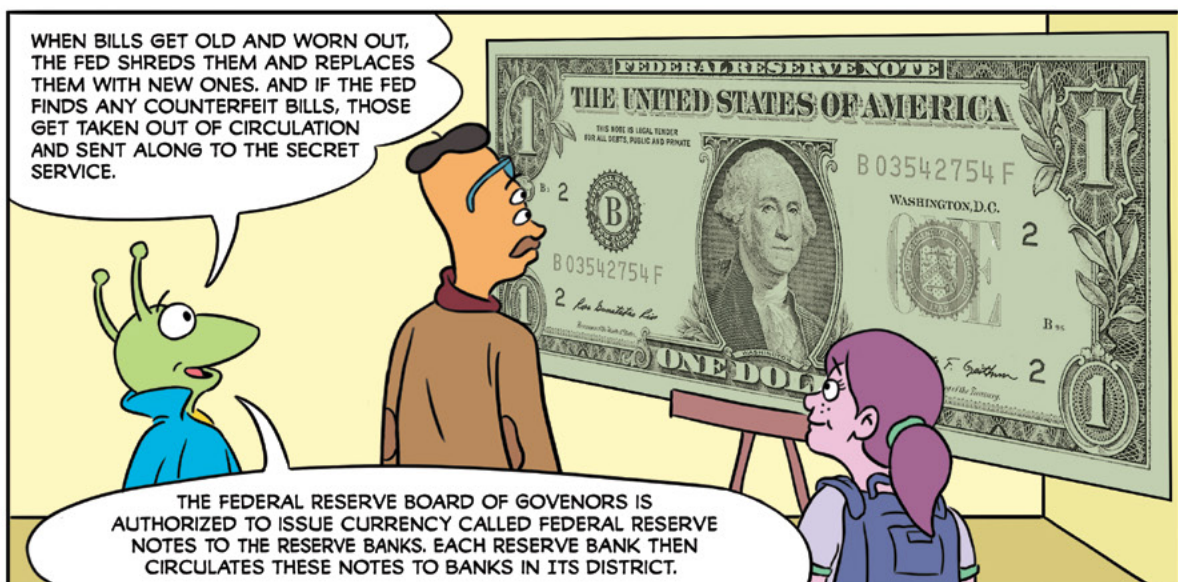
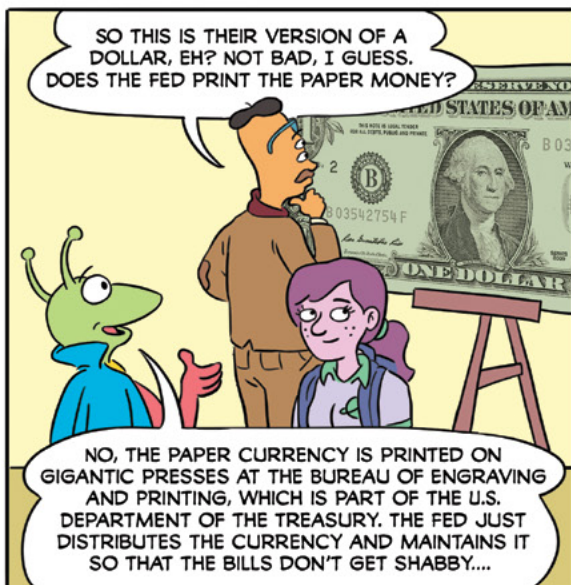


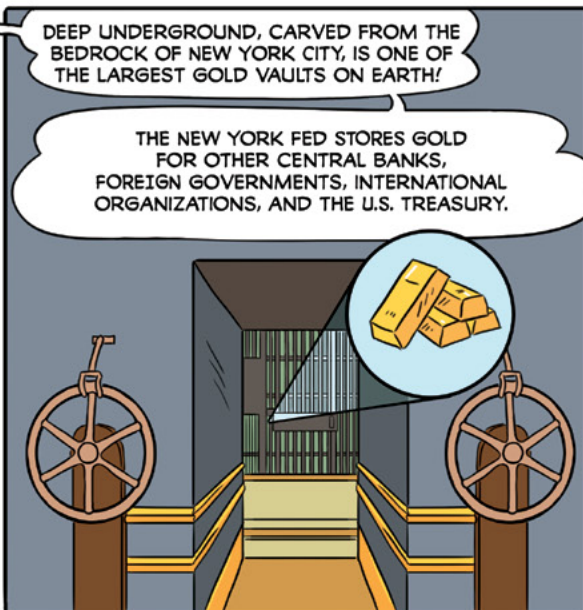


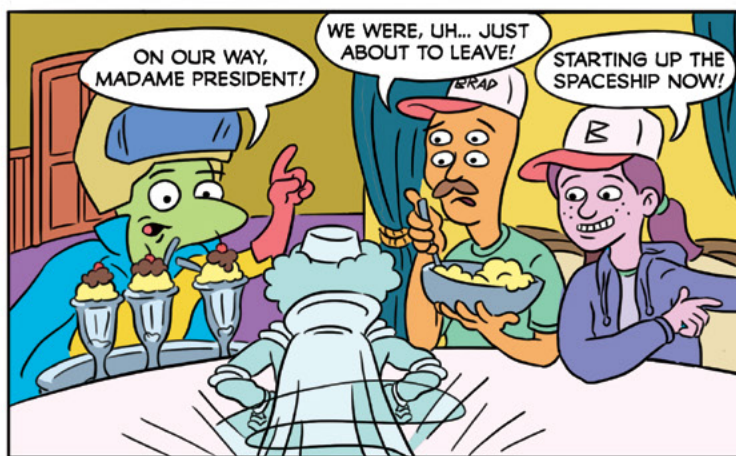












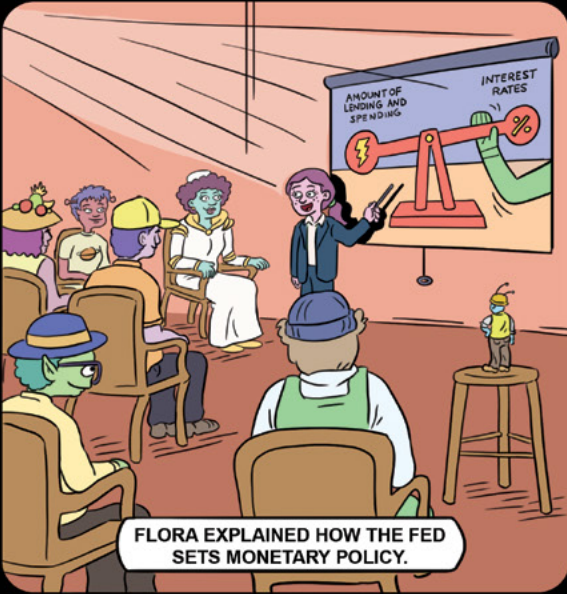
NEWS OF THE UNIVERSE



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.



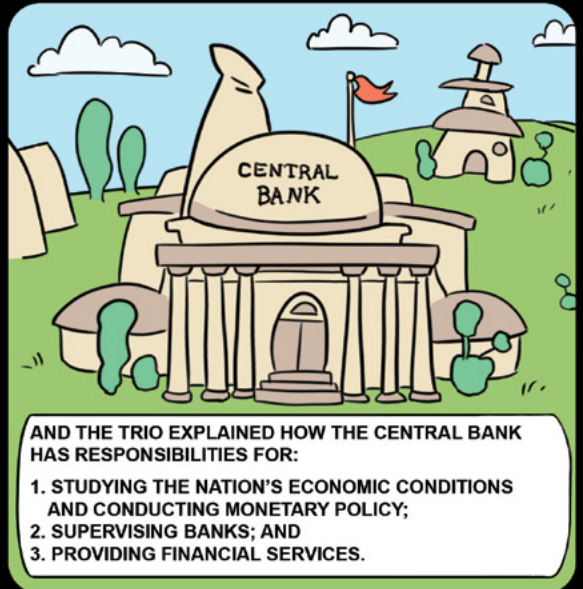
FLORA EXPLAINED HOW THE FED
SETS MONETARY POLICY.



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


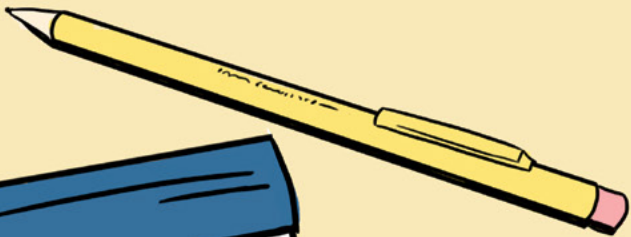


AND GLIX... I MEAN BRAD... SANG ABOUT
THE FINANCIAL SERVICES THE FED PROVIDES.



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.



Next Lesson:
An In-Depth Look at
Monetary Policy...

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