

The Federal Reserve

A bank is a secure place where we can store our money, and withdraw it when we want to use it. Just as many of us store our money (deposit our money) with our local bank, credit union, or money-lender, so our banks store their money (called “reserves”) at their own bank, which is typically a nation’s central bank. In the U.S., the central bank, or banker’s bank, is the Federal Reserve System (“The Fed”). The Fed is not one bank, but several inter-related banker’s banks. It does things like set financial rules, arrange for money to be passed around the country, and operate Monetary Policy. Monetary policy is supposed to maintain a low level of inflation, alongside a high level of employment, but these goals can compete. Monetary Policy can also sometimes compete with Fiscal Policy, or the government’s goals for taxing and spending. For more on this topic, you can see the “Magic Money” and “Magic Checks” essays on this website.

