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by R D

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Federal Reserve Bank (Fed)

The Fed belongs to Federal Reserve System which is US central banking system.

Notably, this banks are 12 in number representing the twelve Federal Reserve Districts in the US (Powell, 2019). The Fed is responsible for controlling the money supply by adjusting the requirement of reserves. Generally, this refers to the banks' sum of funds to hold against down payment in bank accounts. By reducing the reserve requirements, banks can lend more money, raising the overall money supply in the economy. On the contrary, by increasing the banks' reserve needs, the Fed can reduce the money supply's magnitude.

Most of the money circulating in our economy are usually created by banks. The most popular way most of the funds end up in the bank is through bank deposits. However, new money is created whenever the bank makes loans. Most people may think that banks create a paper that has the logo of the government, however, that is not the case. The electronic deposit cash appears as people's balance whenever they check their accounts through the Automatic Teller Machine. This money constitutes 97% of the money flowing in the economy. On the other hand, only three percent is hard cash (Powell, 2019).

Several advantages come with the Fed. These advantages include the fact that it can increase predictability and transparency. Also, it guarantees a sound financial system. Lastly, it increases the accountability and credibility of political actions in the future. The main disadvantage that comes with the Fed is that it is considered to be favoring private interest rather than the public interest (Mankiw, 2016).

In conclusion, I feel like it is essential to have the Fed in the US. The reason being it is in charge of limiting selfish behavior of banks. By this, I mean that whenever the banks are being

greedy in giving unreasonable public rates, the Fed steps in and assists the public in avoiding such incidents.

References

Mankiw, G. N. (2016). *Private and Public Choices*. Macroeconomics [9th Edition].

Powell, J. (2019). *The History and Structure of the Federal Reserve System*. Social Education, 83(2), 81-83.

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