

MONEY FOR NOTHING: INSIDE THE FEDERAL RESERVE

FOUNDING

When and why was the Federal Reserve System created?

MANDATE

What was the Federal Reserve originally intended to do?

How has the Federal Reserve's mandate changed since 1913?

HISTORICAL COMPARISON

Did the US have other central banks before the Federal Reserve System?

Why were those central banks discontinued?

STRUCTURE

Describe the Fed's Public and Private structure.

What does the Fed do with the proceeds of its operations?

If Federal Reserve officials aren't elected, who appoints them? Who oversees the Fed?

THE GOLD STANDARD

When the Fed was created the U.S. and most major nations were on the gold standard. How did the pre-World War I gold standard work?

What was the purpose of making paper currencies convertible to gold?



THE GREAT DEPRESSION

How did Federal Reserve policies impact the Great Depression?

What role did the Gold Standard play in the Fed's decision making?

What did economists learn from that experience? How many years passed before it became broadly accepted that Fed policy worsened the Great Depression?

THE BRETTON WOODS SYSTEM

Describe the Bretton Woods monetary system of 1944.

How long did that system last? Why did it fail?

THE GREAT INFLATION

What role did Federal Reserve policy play in the "Great Inflation" of 1965-1979?

What did economists learn from that experience?

PAUL VOLCKER

When Paul Volcker came into office inflation was 13% per year and the future of the US dollar as a reserve currency was in question.

What policies did Volcker use to try to lower inflation?

How did economists and the general public view his policies at the time? In retrospect?

ALAN GREENSPAN

How do you reconcile Alan Greenspan's free market ideology and his frequent interventions in financial markets?



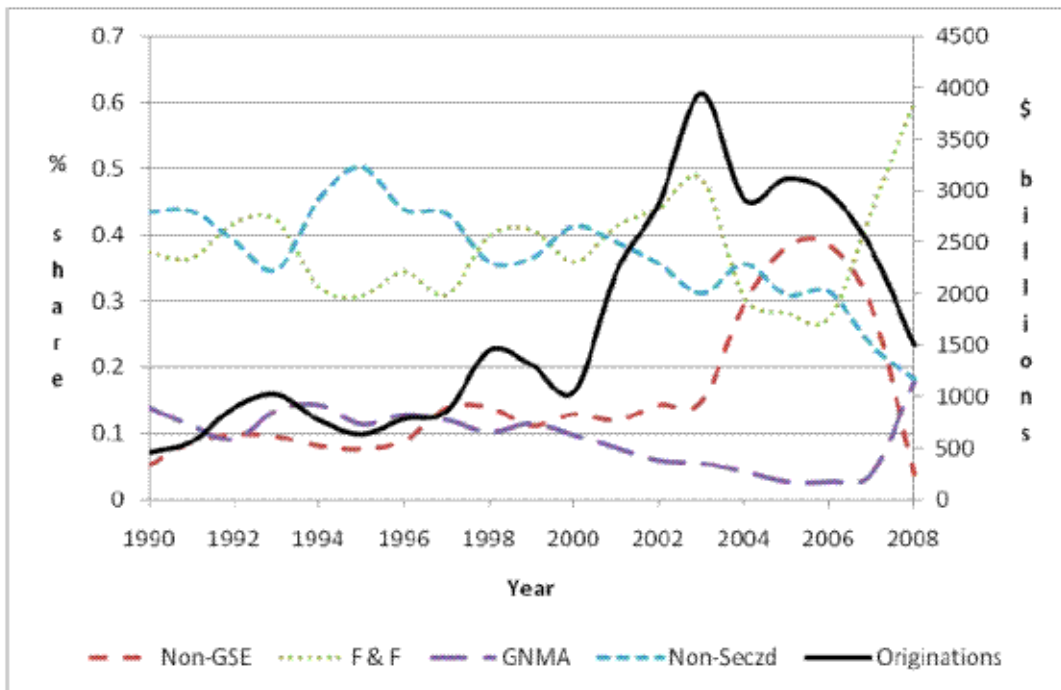
What were the key successes and failures during his 1987-2006 tenure at the Fed? Was Greenspan in some ways a victim of his early success?

Was it a mistake for the American public to place so much faith in one man?

FED POLICY AND THE HOUSING BUBBLE: 2001-2005

What incentives did low interest rates provide homebuyers during this period? (Note: In 2004 - 30% of mortgages originated in the US were adjustable. The real Fed Funds Rate was negative until Spring, 2005).

What incentive did 1% interest rates provide to Wall Street Investment banks (see chart below which shows Non-GSE mortgage securitizers- i.e. Wall Street- nearly tripling their market share in 2003-4)?



What incentives did low interest rates provide pension funds and other large institutional investors searching for higher yields in 2001-5 in an effort to make their projected 7-8% annual returns?

Chairman Bernanke claimed in September, 2012 that low interest rates (brought about by the Fed's "QE 3" policies) would boost housing prices. Yet he denies that low interest rates had the same effect in 2001-2005. How do you reconcile his two statements?