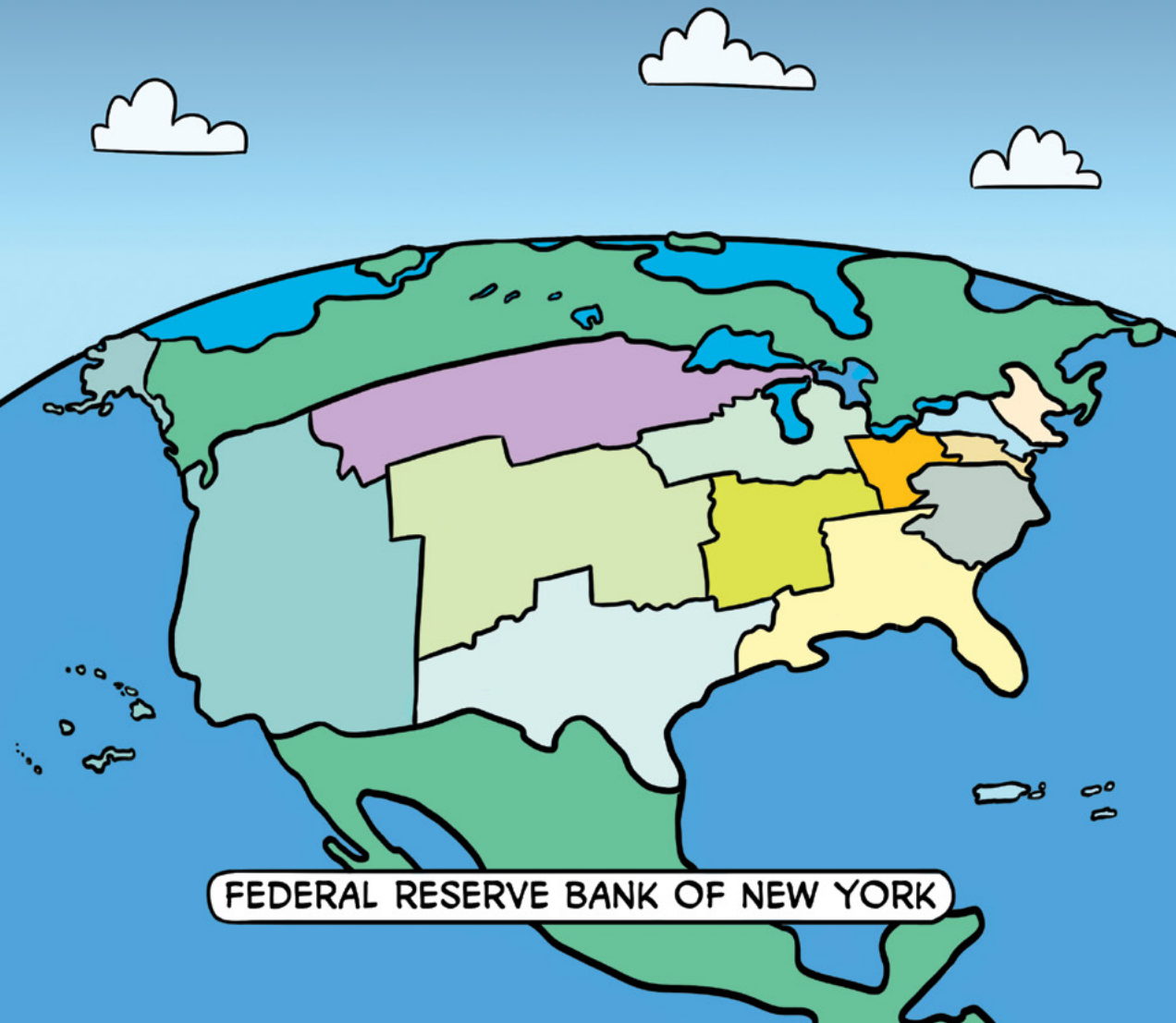


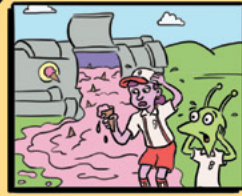
The **STORY** of the
**FEDERAL
RESERVE
SYSTEM**



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!

NOVUS NEWS
PRESIDENT TILLI
RAISES A GOOD POINT

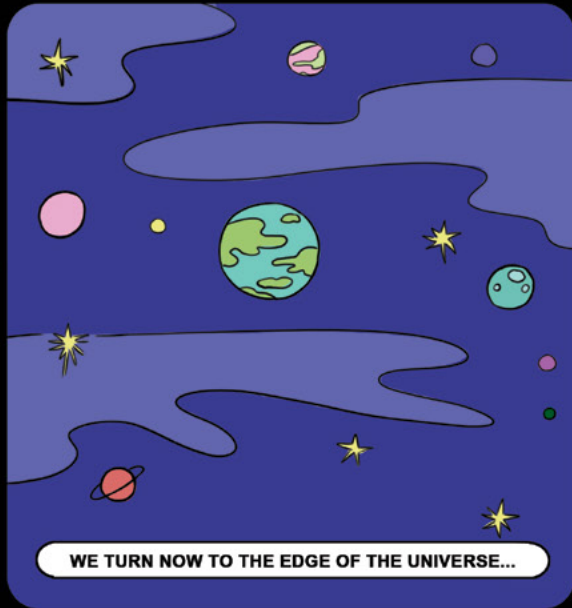
INSTEAD, THE CITIZENS OF NOVUS DECIDED
TO COME TOGETHER AND CREATE A CENTRAL
BANK TO LOAN MONEY TO OTHER BANKS—TO
ACT AS A LENDER OF LAST RESORT.*



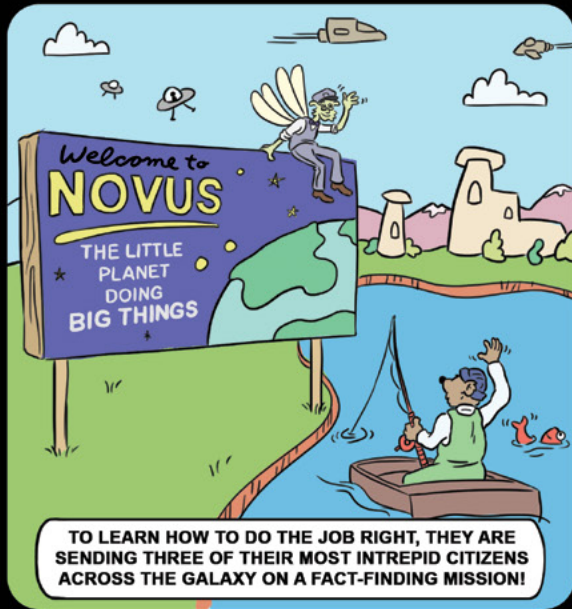
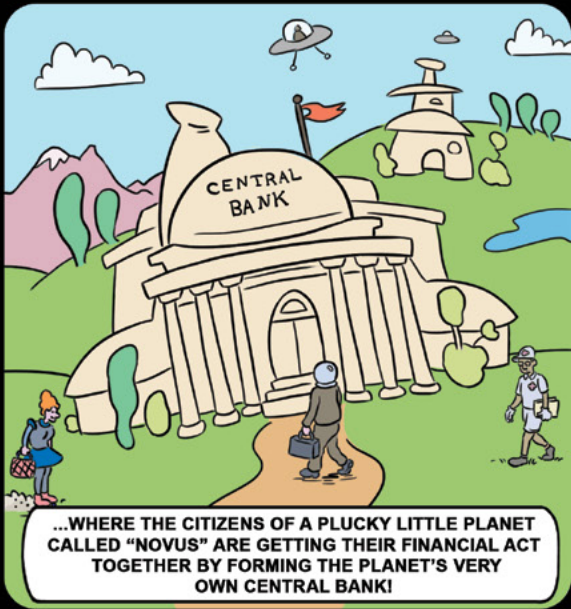
THIS NEW CENTRAL BANK OF NOVUS WOULD HELP
STRUGGLING BANKS CONTINUE TO LEND AND PAY
DEPOSITORS BACK—AVOIDING CATASTROPHE.

*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.

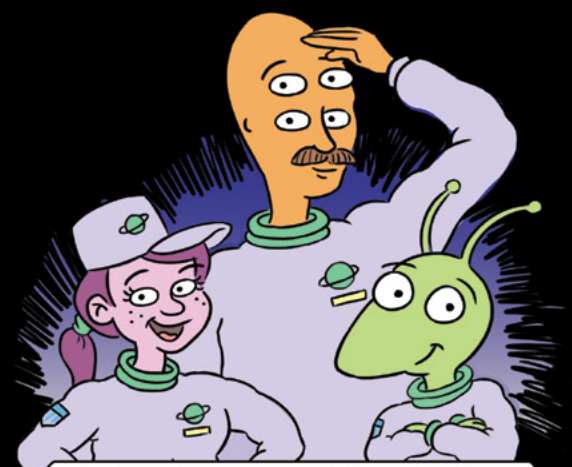




WE TURN NOW TO THE EDGE OF THE UNIVERSE...

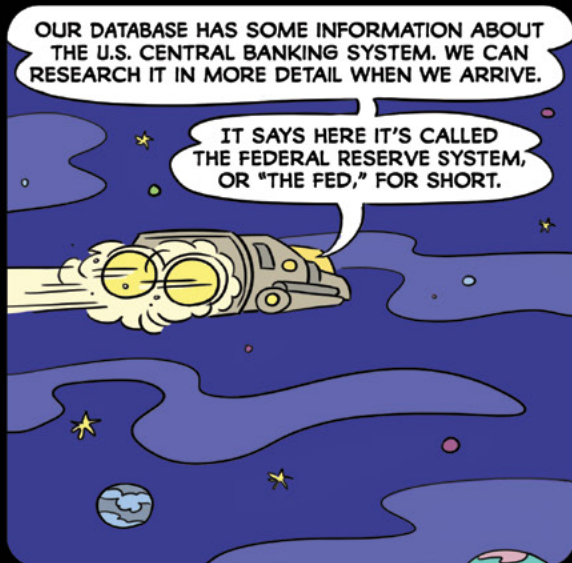
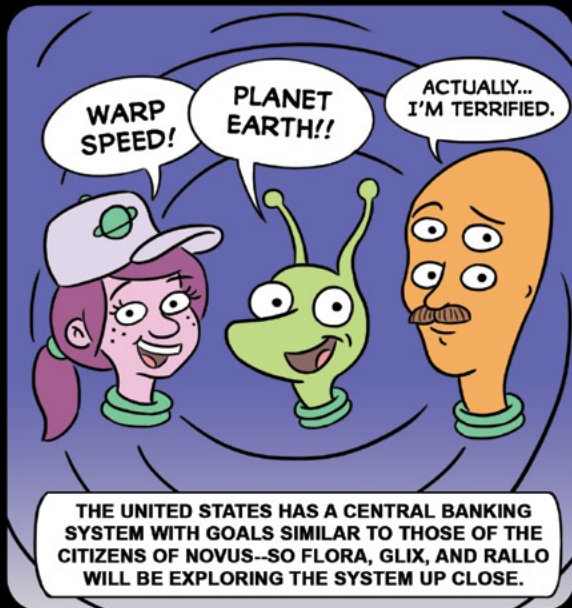
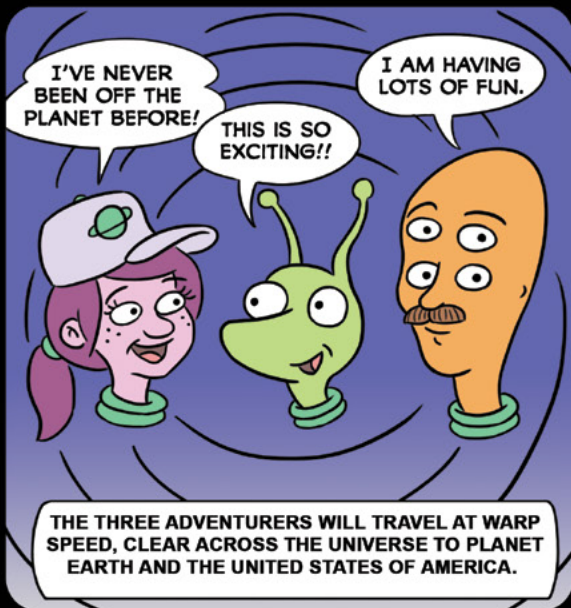


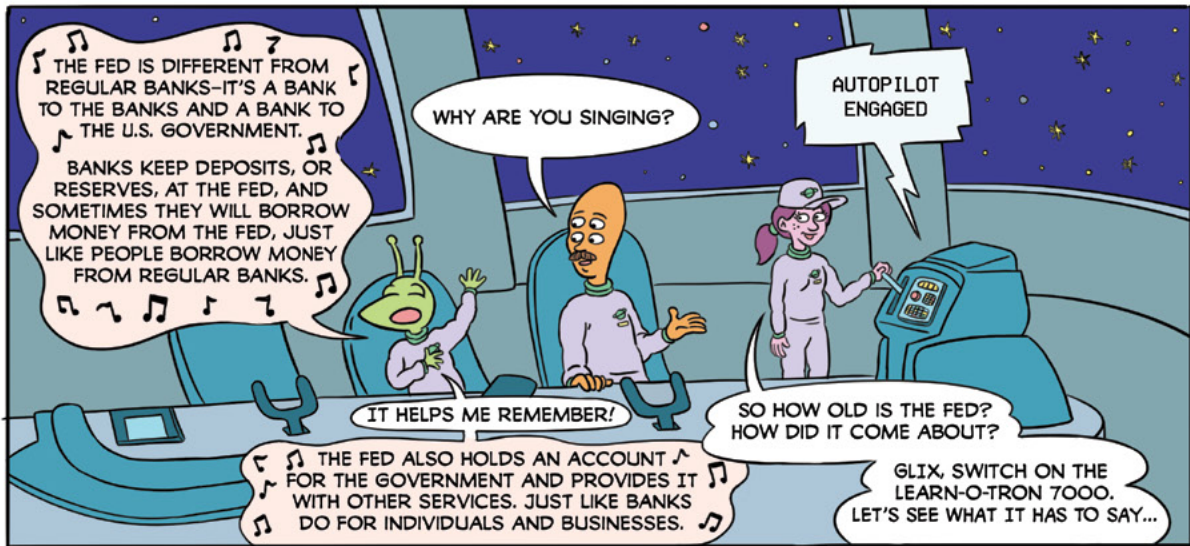
TO LEARN HOW TO DO THE JOB RIGHT, THEY ARE SENDING THREE OF THEIR MOST INTREPID CITIZENS ACROSS THE GALAXY ON A FACT-FINDING MISSION!



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 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?

AUTOPILOT ENGAGED

IT HELPS ME REMEMBER!

SO HOW OLD IS THE FED? HOW DID IT COME ABOUT?

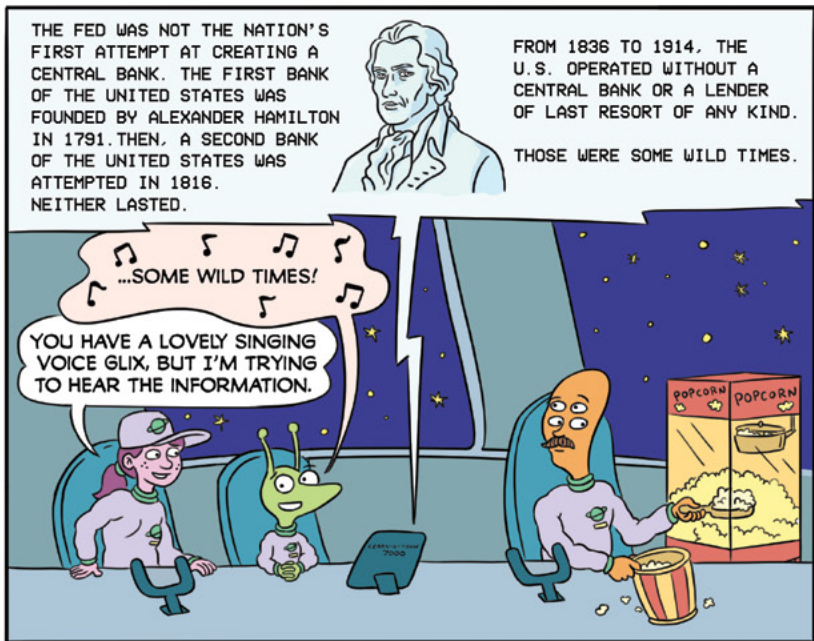
♪ THE FED ALSO HOLDS AN ACCOUNT ♪ FOR THE GOVERNMENT AND PROVIDES IT WITH OTHER SERVICES. JUST LIKE BANKS DO FOR INDIVIDUALS AND BUSINESSES. ♪

GLIX, SWITCH ON THE LEARN-O-TRON 7000. LET'S SEE WHAT IT HAS TO SAY...



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

♪ ...CREATED BY CONGRESS IN 1913! ♪



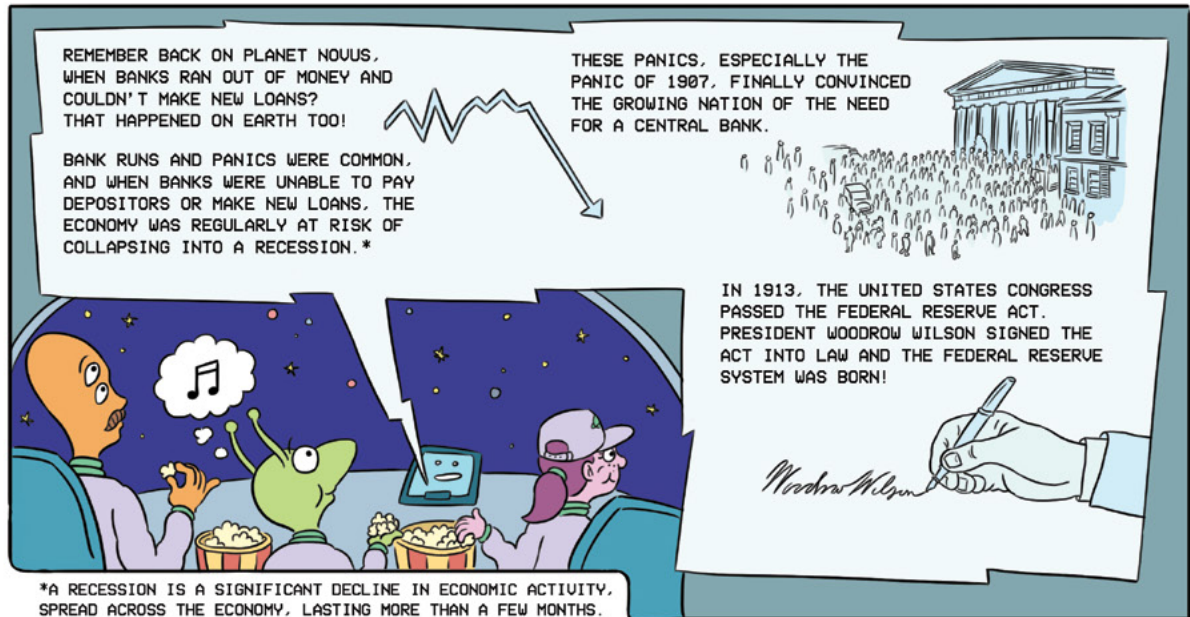
THE FED WAS NOT THE NATION'S FIRST ATTEMPT AT CREATING A CENTRAL BANK. THE FIRST BANK OF THE UNITED STATES WAS FOUNDED BY ALEXANDER HAMILTON IN 1791. THEN, A SECOND BANK OF THE UNITED STATES WAS ATTEMPTED IN 1816. NEITHER LASTED.



FROM 1836 TO 1914, THE U.S. OPERATED WITHOUT A CENTRAL BANK OR A LENDER OF LAST RESORT OF ANY KIND. THOSE WERE SOME WILD TIMES.

♪ ...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.

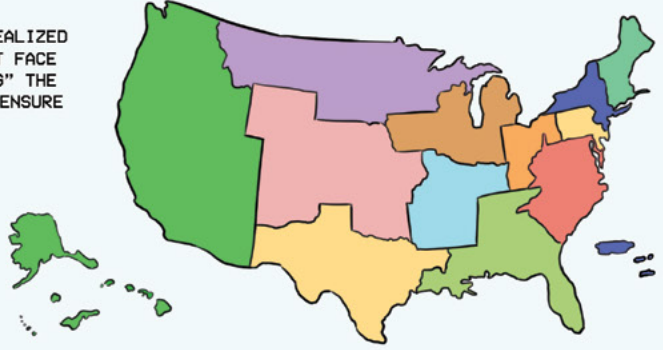


THE BOUNDARIES OF THE TWELVE DISTRICTS WERE BASED ON TRADING PATTERNS (THE EXCHANGE OF GOODS AND SERVICES) AND OTHER ECONOMIC FACTORS AT THE TIME.

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!

THIS IS BEGGING TO BE SET TO MUSIC.

HEY, WHERE DID YOU TWO GET PIZZA?



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

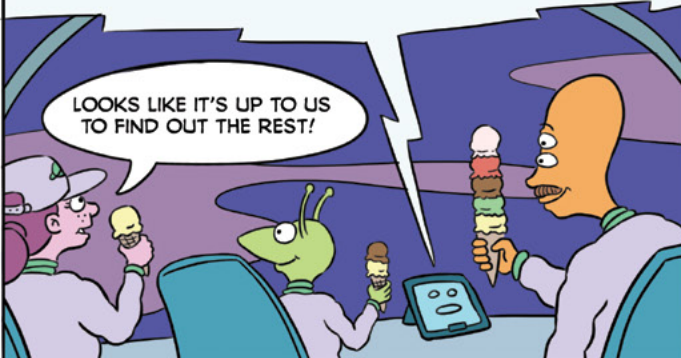


12 FEDERAL
RESERVE
BANKS



FEDERAL
OPEN MARKET
COMMITTEE
(FOMC)

LOOKS LIKE IT'S UP TO US
TO FIND OUT THE REST!

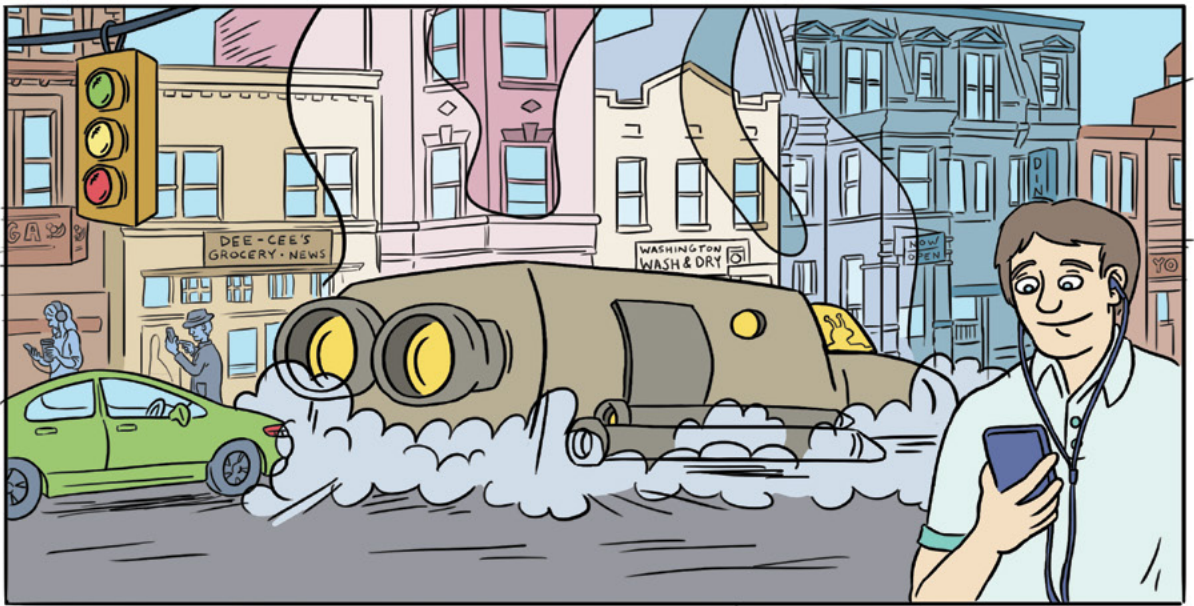


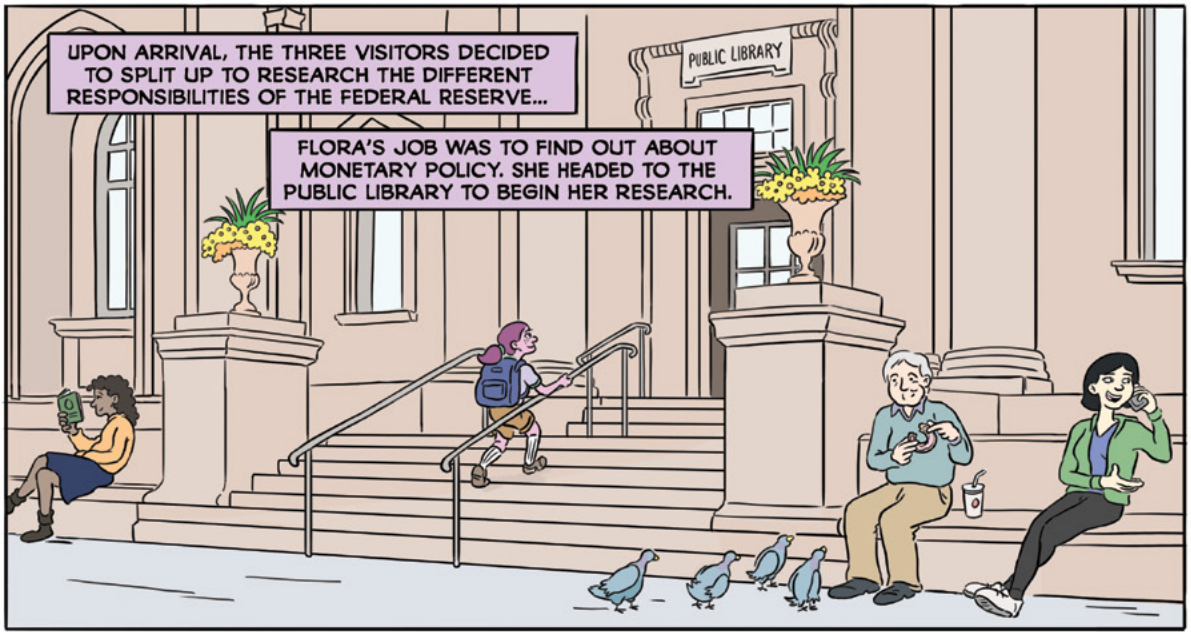
!!ALERT!!!ALERT

PARDON ME, EVERYBODY,
BUT WHERE WOULD YOU
LIKE ME TO PARK?

WE'VE ARRIVED!







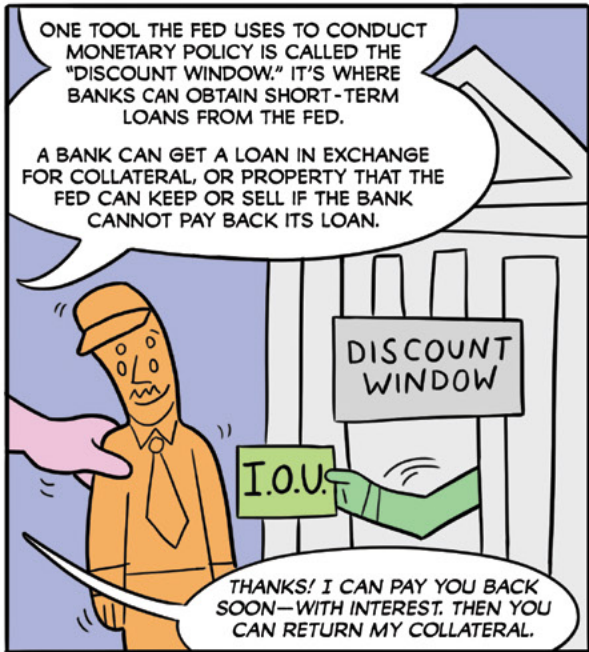


FLORA WENT STRAIGHT TO WORK ON PRODUCING A VIDEO REPORT ABOUT HOW THE FEDERAL RESERVE CONDUCTS MONETARY POLICY.

HI NOVUS! IT'S FLORA REPORTING FROM EARTH ABOUT THE FEDERAL RESERVE SYSTEM.

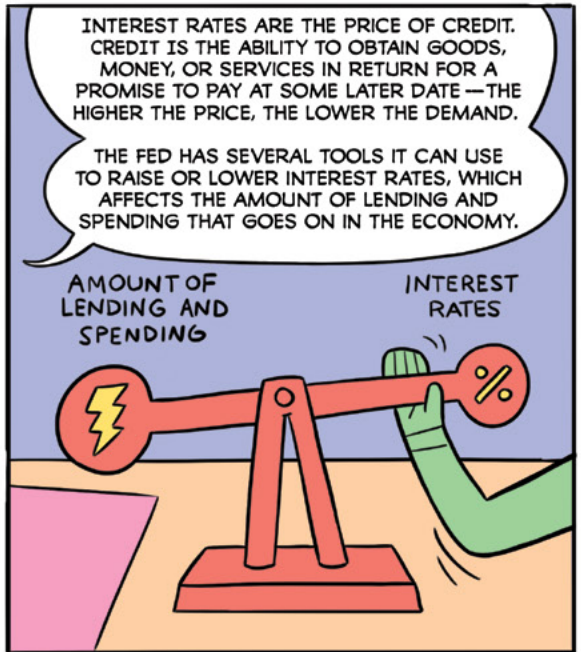
THE FED ACTS AS LENDER OF LAST RESORT FOR BANKS WITH SHORT-TERM NEEDS AND IT SUPERVISES BANKS TO TRY TO PREVENT PROBLEMS IN THE FIRST PLACE.

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.

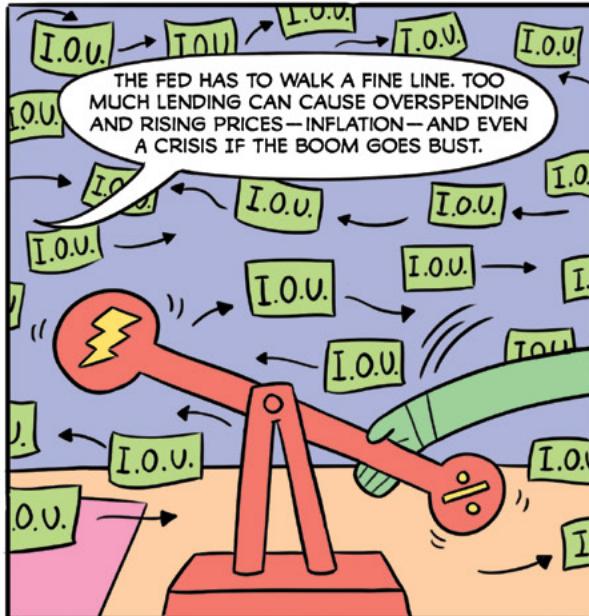
THANKS! I CAN PAY YOU BACK SOON—WITH INTEREST. THEN YOU CAN RETURN MY COLLATERAL.



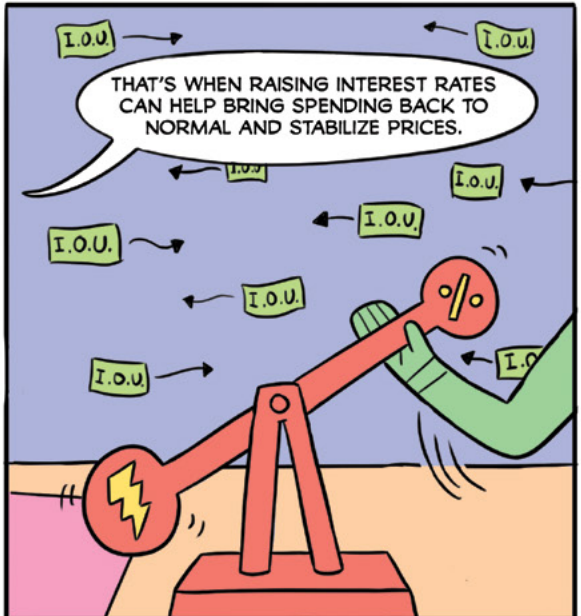
INTEREST RATES ARE THE PRICE OF CREDIT. CREDIT IS THE ABILITY TO OBTAIN GOODS, MONEY, OR SERVICES IN RETURN FOR A PROMISE TO PAY AT SOME LATER DATE—THE HIGHER THE PRICE, THE LOWER THE DEMAND.

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

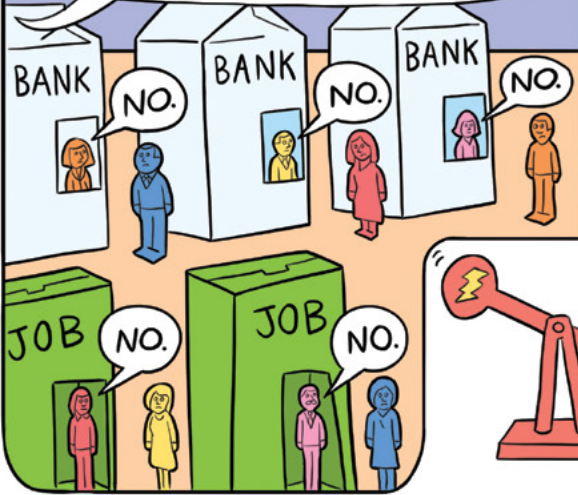


THE FED HAS TO WALK A FINE LINE. TOO MUCH LENDING CAN CAUSE OVERSPENDING AND RISING PRICES—INFLATION—AND EVEN A CRISIS IF THE BOOM GOES BUST.

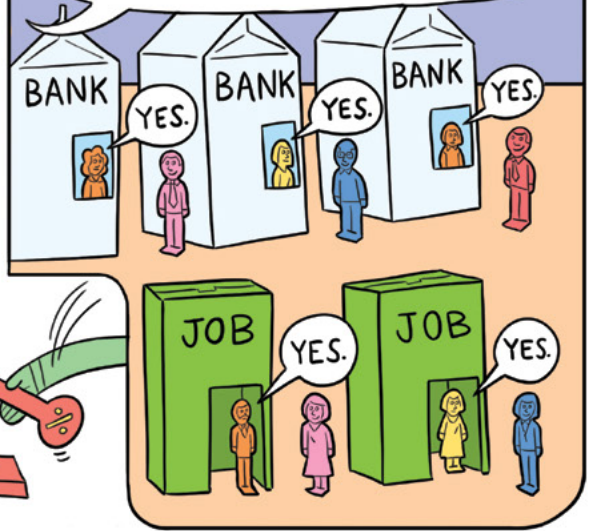


THAT'S WHEN RAISING INTEREST RATES CAN HELP BRING SPENDING BACK TO NORMAL AND STABILIZE PRICES.

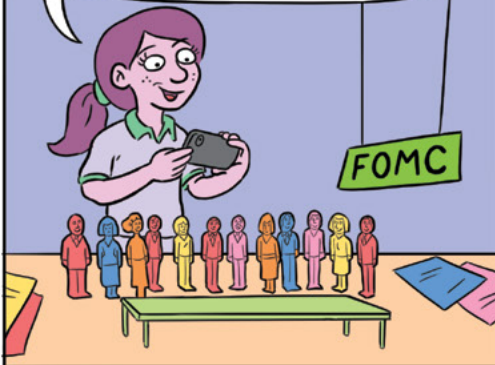
...BUT TOO LITTLE LENDING AND SPENDING CAN LEAD TO THE OPPOSITE KIND OF ECONOMIC PROBLEM—A RECESSION. THAT'S WHEN PEOPLE WANT TO WORK BUT CAN'T FIND JOBS AND PRICES FALL—A FALL IN PRICES IS CALLED DEFLATION.



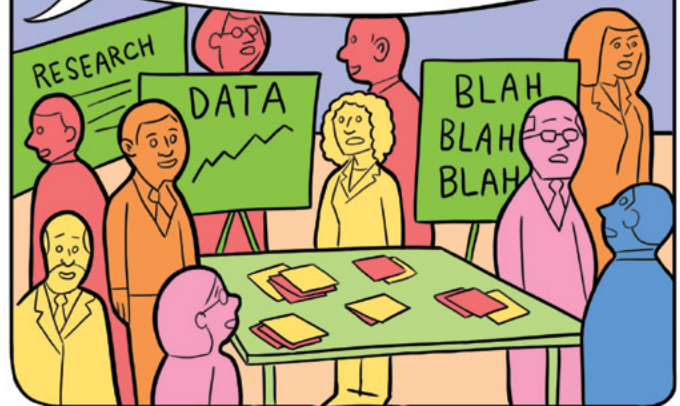
SOMETIMES LOWERING INTEREST RATES IS JUST THE ANSWER TO GET THE ECONOMY MOVING AGAIN.



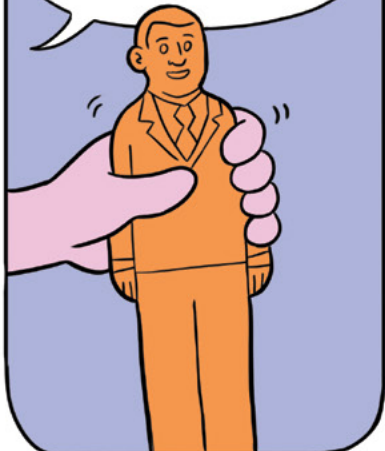
OPEN MARKET OPERATIONS ARE THE FED'S KEY MONETARY POLICY TOOL. THE MEMBERS OF THE FEDERAL OPEN MARKET COMMITTEE (FOMC) COME FROM ACROSS THE COUNTRY TO MEET IN WASHINGTON, D.C.



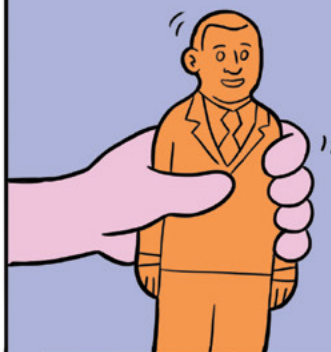
THEY GATHER LOTS OF DATA ON HOUSEHOLDS AND BUSINESSES TO DECIDE WHETHER TO INCREASE OR DECREASE INTEREST RATES IN THE ECONOMY.



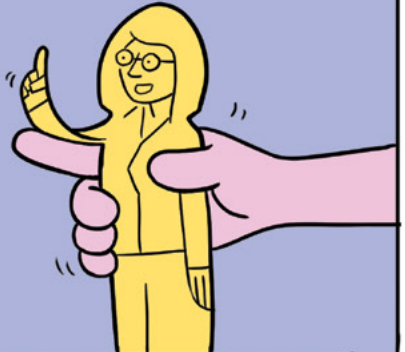
THE ECONOMY'S TOO SLOW; WORKERS ARE BEING LAID OFF AND PRICES ARE FALLING. LET'S STIMULATE THE ECONOMY BY LOWERING INTEREST RATES.



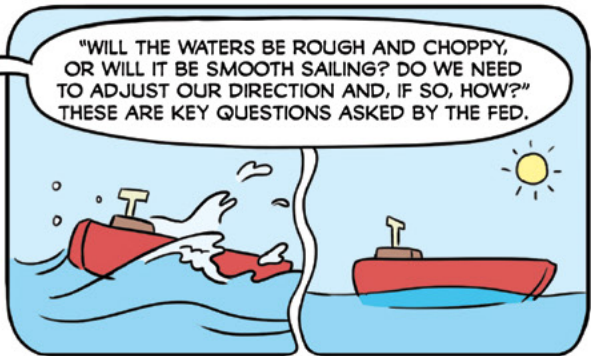
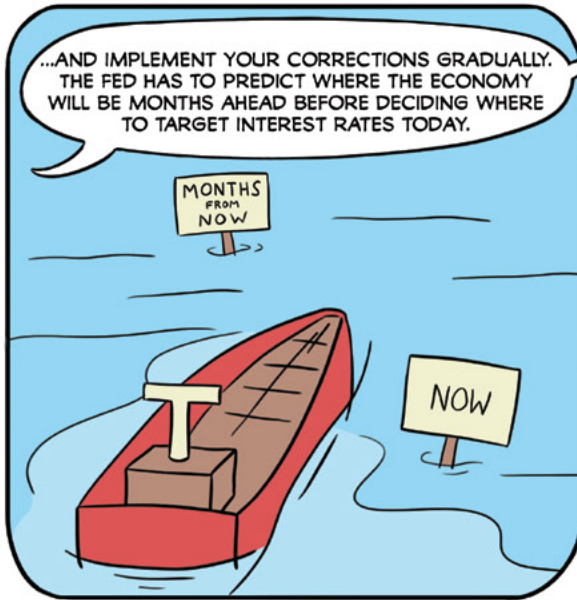
NOW THE ECONOMY'S OVERHEATING AND PRICES ARE RISING. MAYBE WE SHOULD SLOW THINGS DOWN.

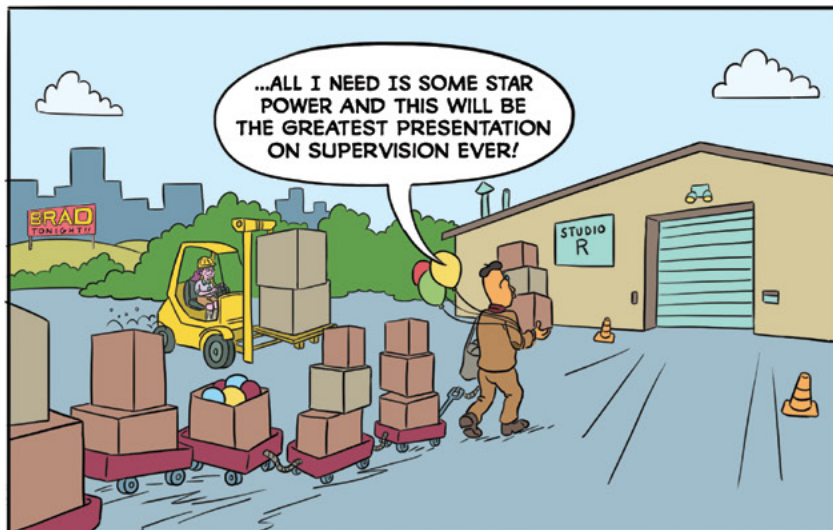
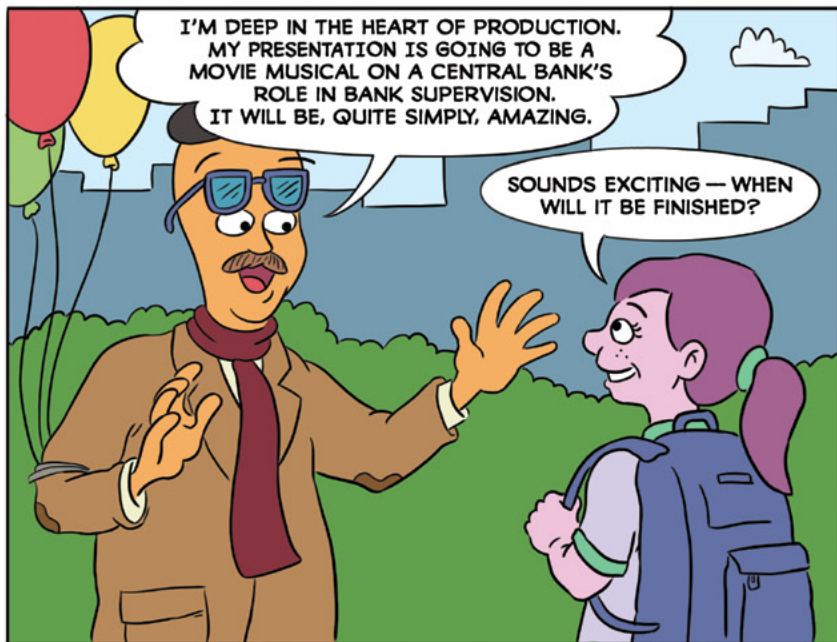


TIME TO RAISE INTEREST RATES.* THAT WILL HELP KEEP THE ECONOMY IN BALANCE.



* 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.

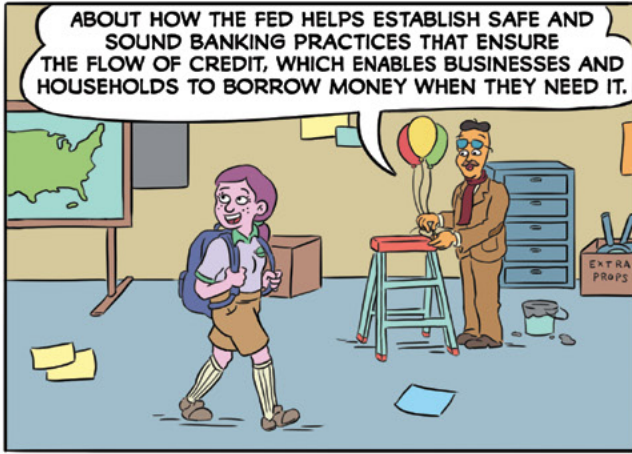






JUST... WOW.

I WANTED TO START MY STORY HERE...



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.



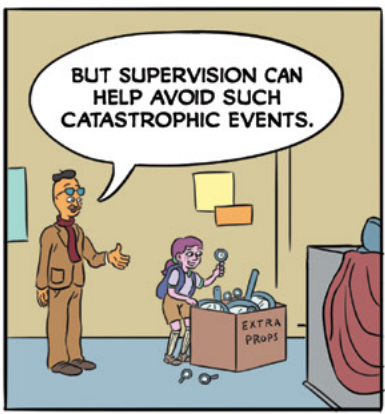
SUPERVISORS FROM THE FED EXAMINE BANKS REGULARLY TO HELP ENSURE THAT THEY ARE BEING MANAGED EFFECTIVELY AND ARE NOT TAKING TOO MUCH RISK.



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.

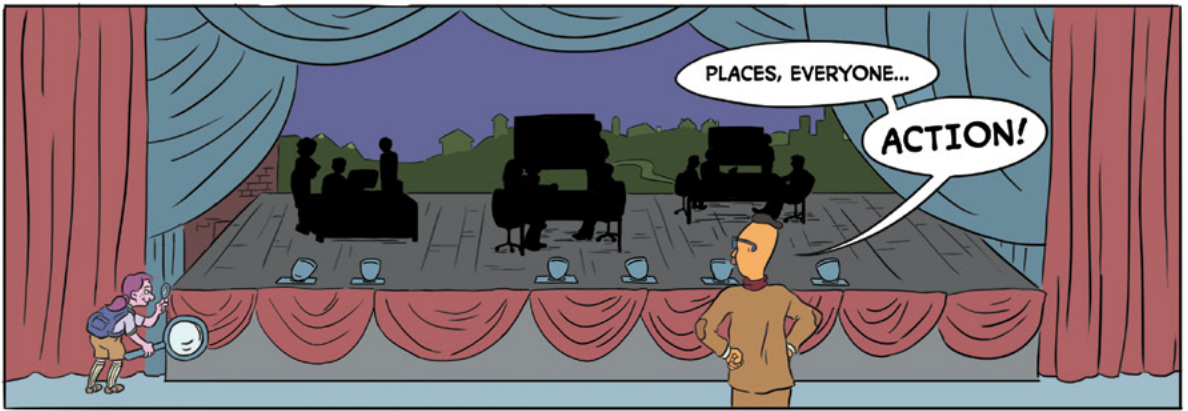


CERTAIN RULES ARE ESTABLISHED THAT BANKS HAVE TO FOLLOW...



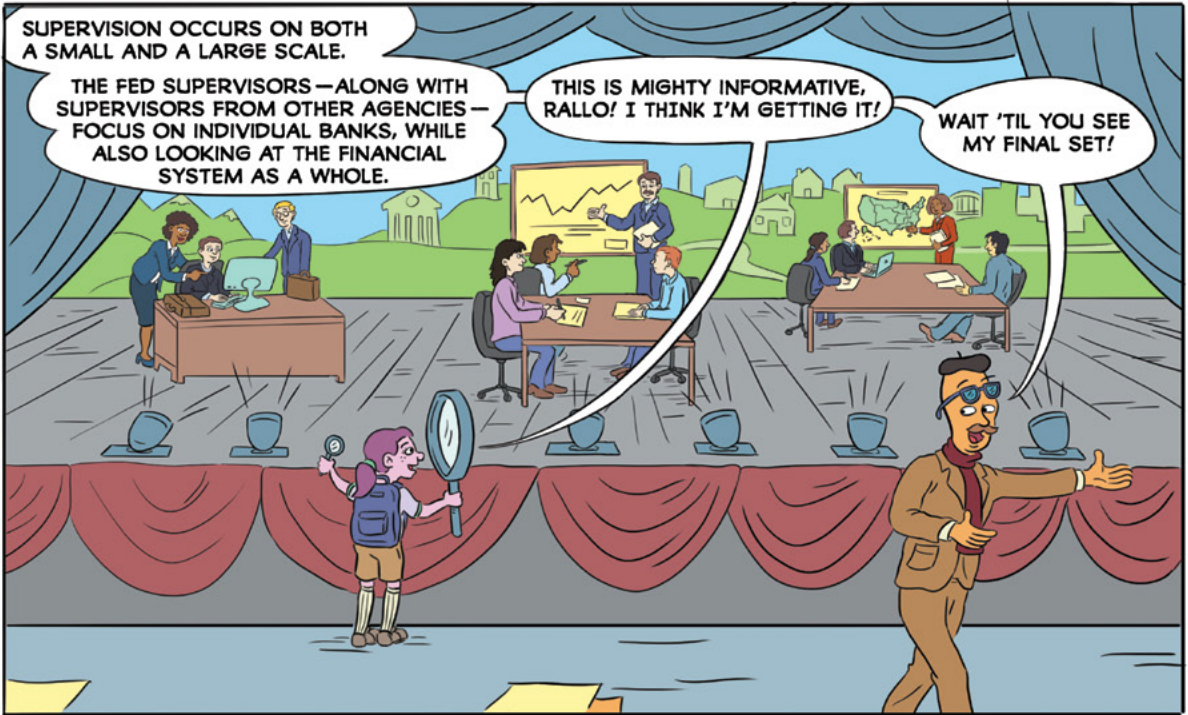
AND THEN SUPERVISION MAKES SURE THE BANKS ARE FOLLOWING THOSE RULES?

YES! SO THAT THE BANKS ARE OPERATING SAFELY AND SOUNDLY.



PLACES, EVERYONE...

ACTION!

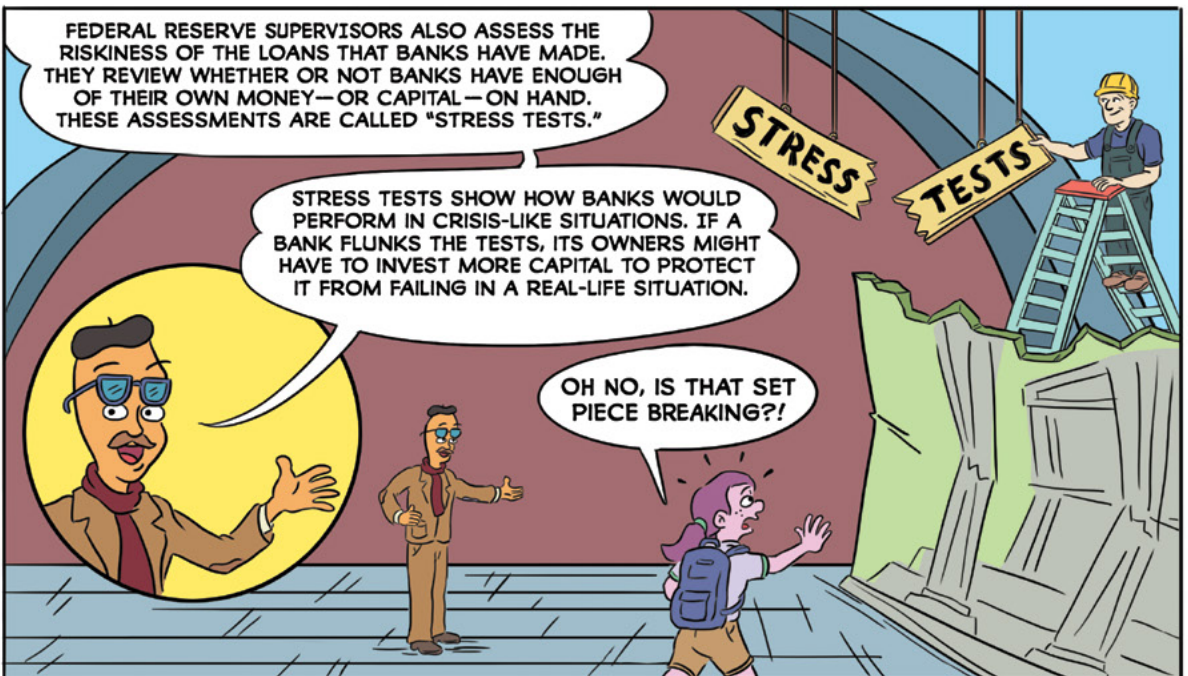


SUPERVISION OCCURS ON BOTH A SMALL AND A LARGE SCALE.

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!



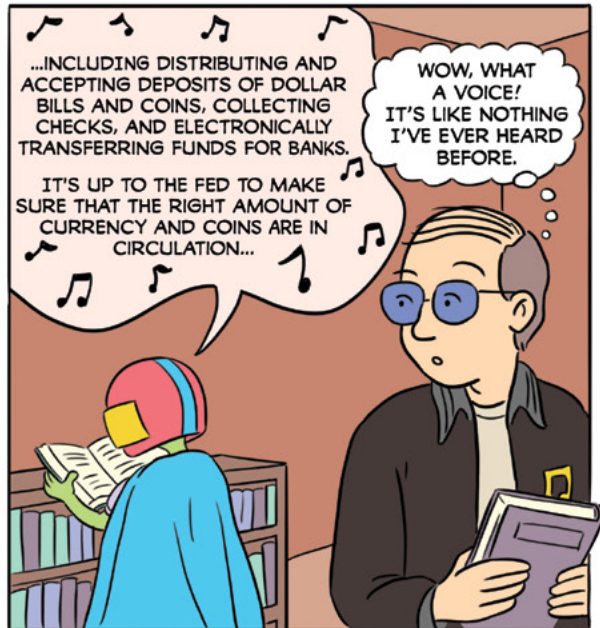
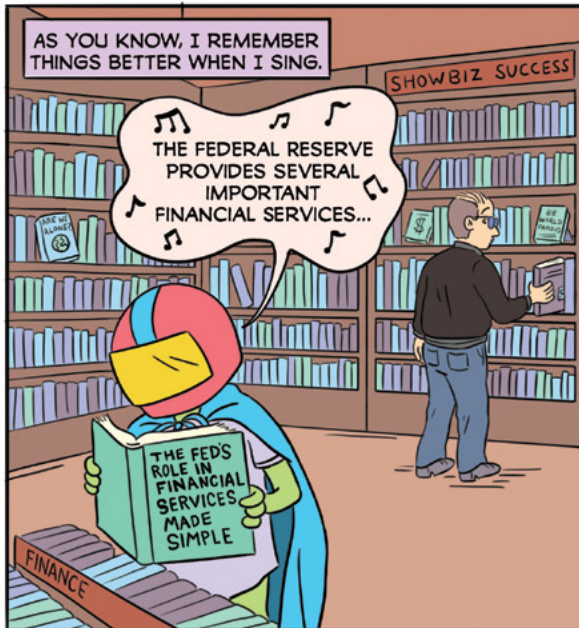
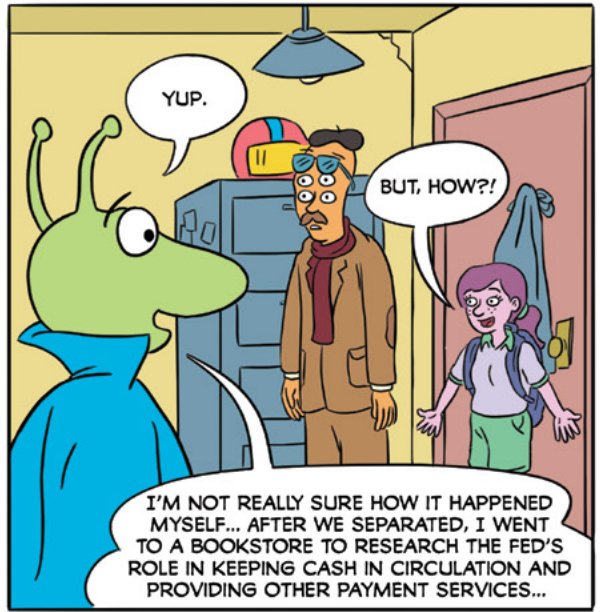
FEDERAL RESERVE SUPERVISORS ALSO ASSESS THE RISKINESS OF THE LOANS THAT BANKS HAVE MADE. THEY REVIEW WHETHER OR NOT BANKS HAVE ENOUGH OF THEIR OWN MONEY—OR CAPITAL—ON HAND. THESE ASSESSMENTS ARE CALLED "STRESS TESTS."

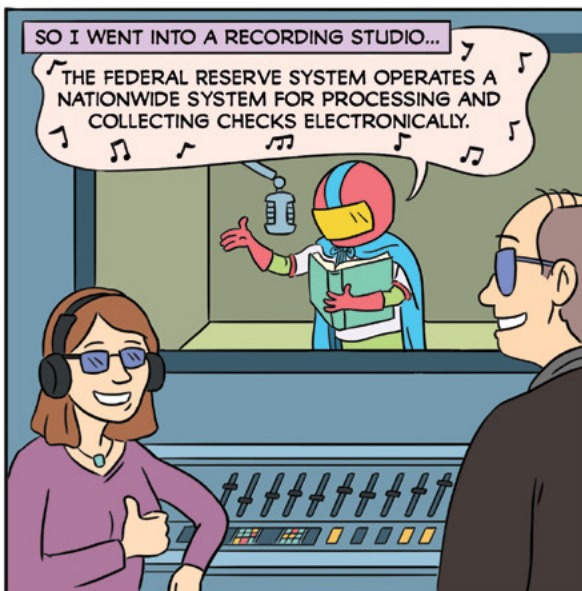
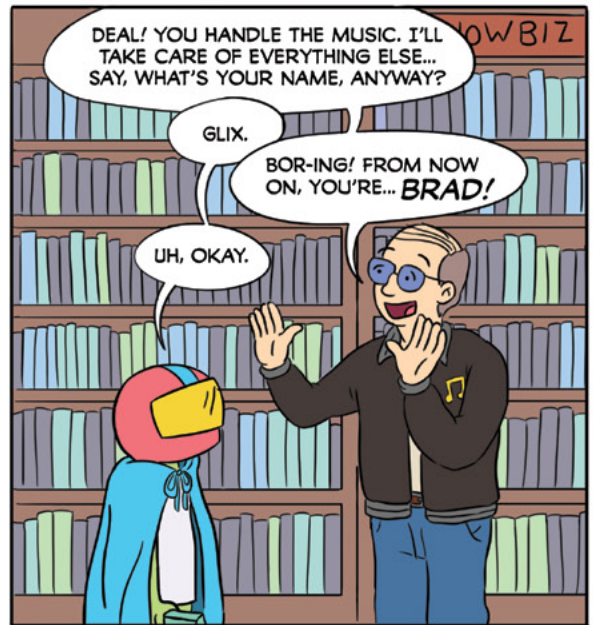
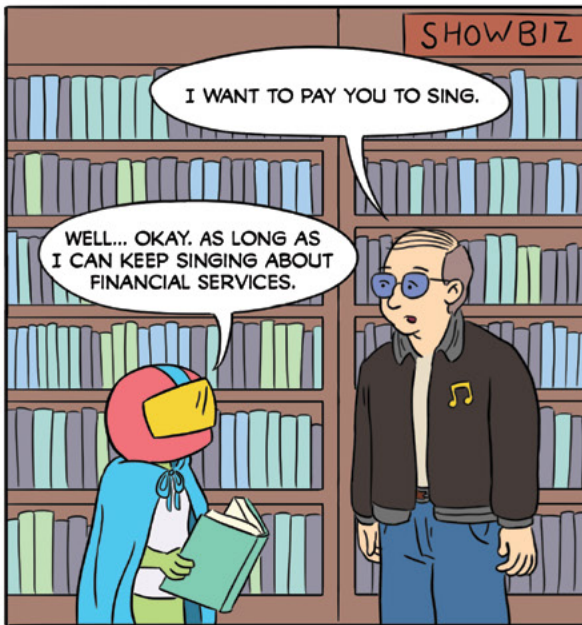
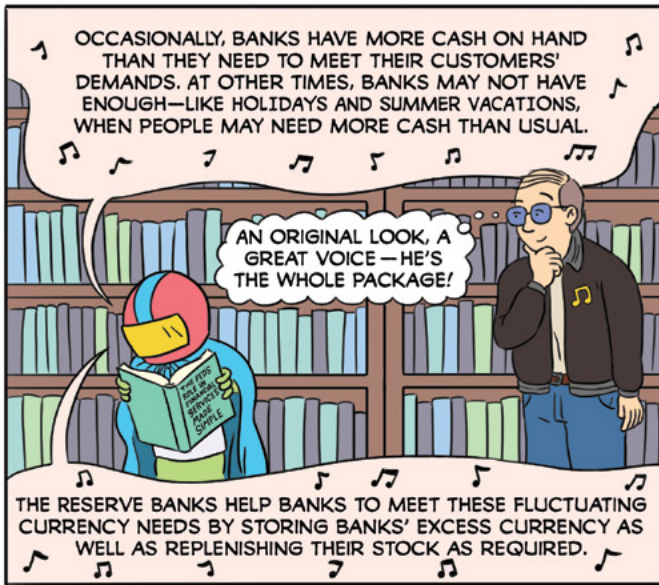
STRESS TESTS SHOW HOW BANKS WOULD PERFORM IN CRISIS-LIKE SITUATIONS. IF A BANK FLUNKS THE TESTS, ITS OWNERS MIGHT HAVE TO INVEST MORE CAPITAL TO PROTECT IT FROM FAILING IN A REAL-LIFE SITUATION.

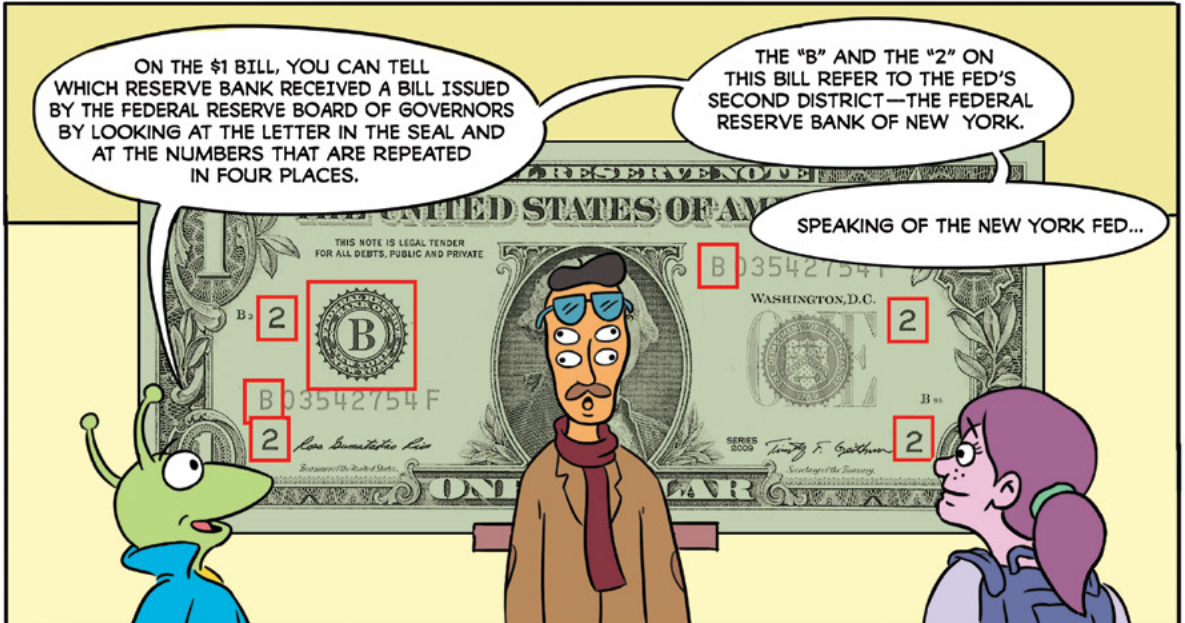
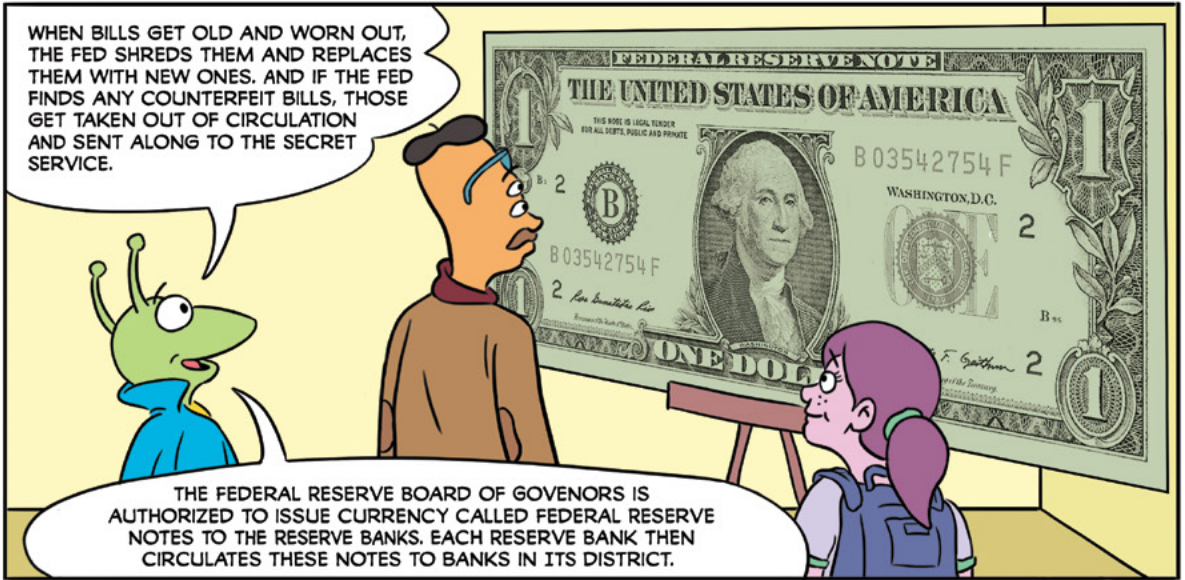
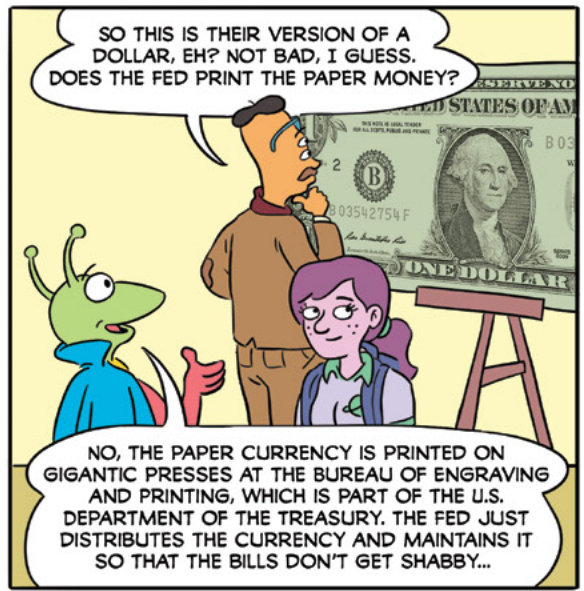
OH NO, IS THAT SET PIECE BREAKING?!

STRESS

TESTS



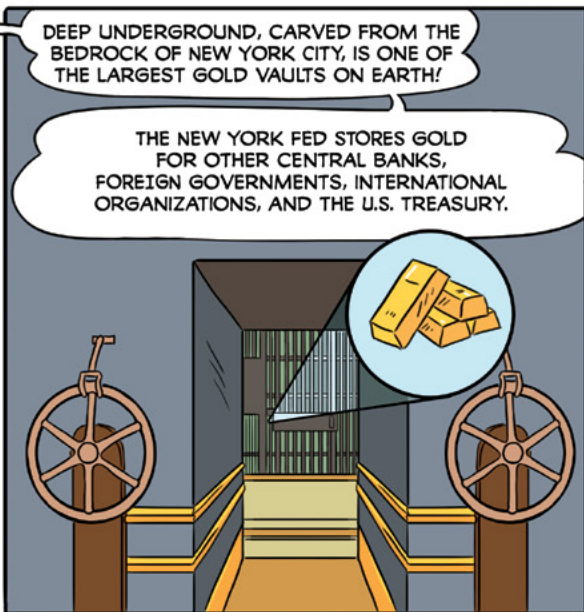






THE NEW YORK FED ALSO IS RESPONSIBLE FOR SOMETHING UNIQUE AMONG THE RESERVE BANKS — SAFEKEEPING GOLD!

FEDERAL RESERVE
BANK OF NEW YORK



DEEP UNDERGROUND, CARVED FROM THE BEDROCK OF NEW YORK CITY, IS ONE OF THE LARGEST GOLD VAULTS ON EARTH!

THE NEW YORK FED STORES GOLD FOR OTHER CENTRAL BANKS, FOREIGN GOVERNMENTS, INTERNATIONAL ORGANIZATIONS, AND THE U.S. TREASURY.



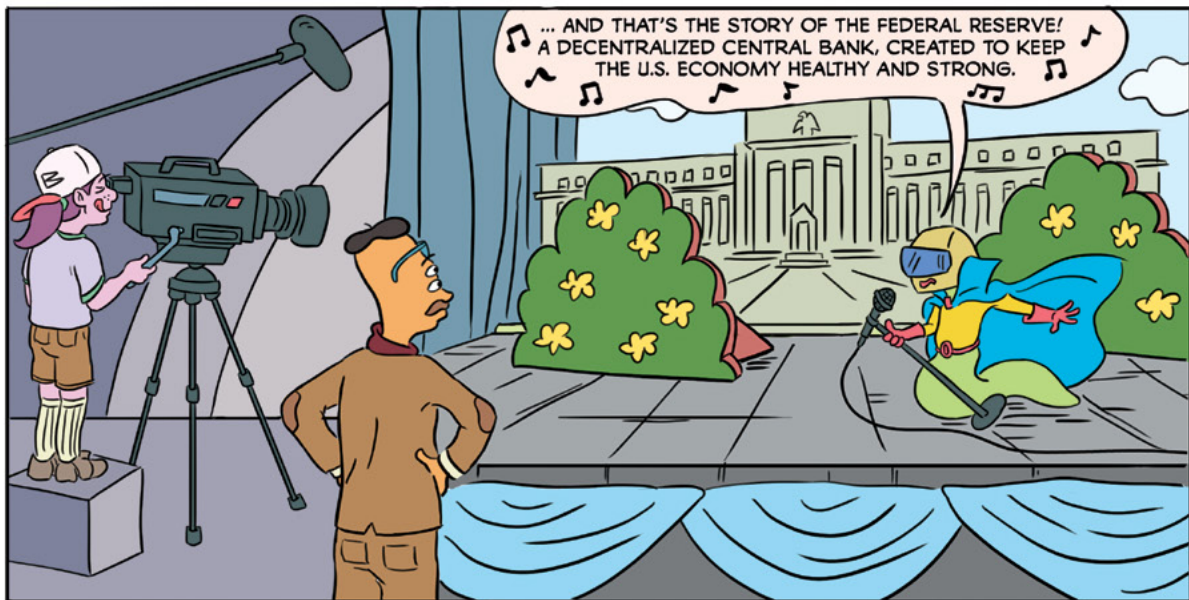
HEY, UH, GLIX—I MEAN, MR. BRAD—DO YOU THINK YOU'D BE WILLING TO SING ONE OF YOUR SONGS IN MY MUSICAL? IT WOULD REALLY HELP ME DURING AWARDS SEASON.

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.

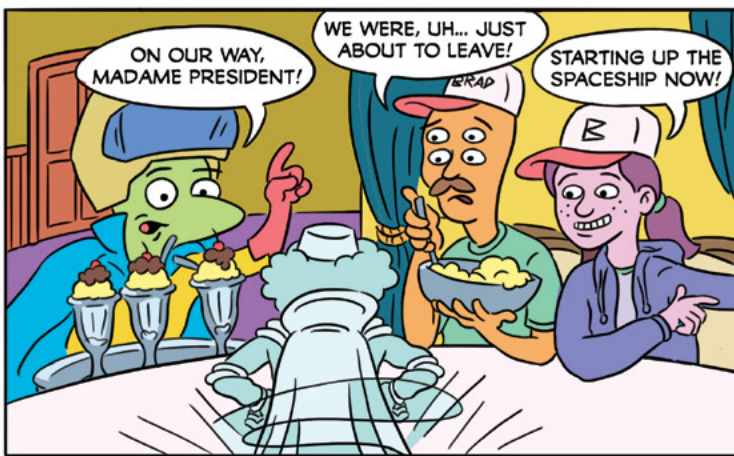
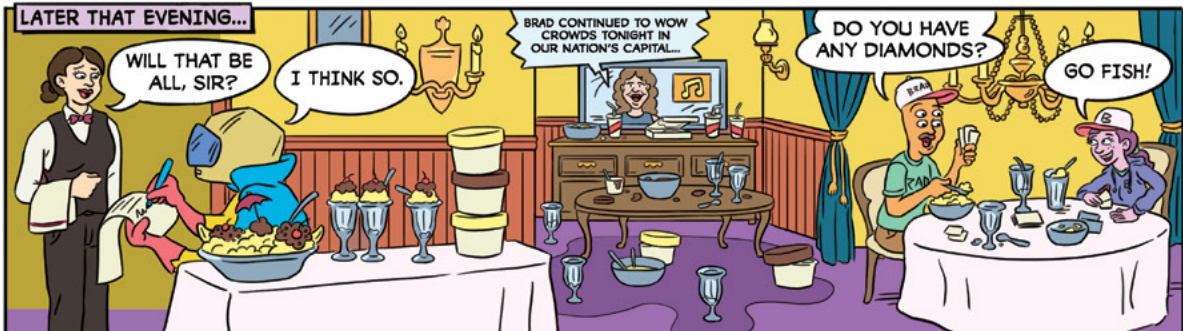


AW, I'M JUST KIDDING. OF COURSE I'LL DO IT!

HOORAY!!



... AND THAT'S THE STORY OF THE FEDERAL RESERVE!
A DECENTRALIZED CENTRAL BANK, CREATED TO KEEP
THE U.S. ECONOMY HEALTHY AND STRONG.



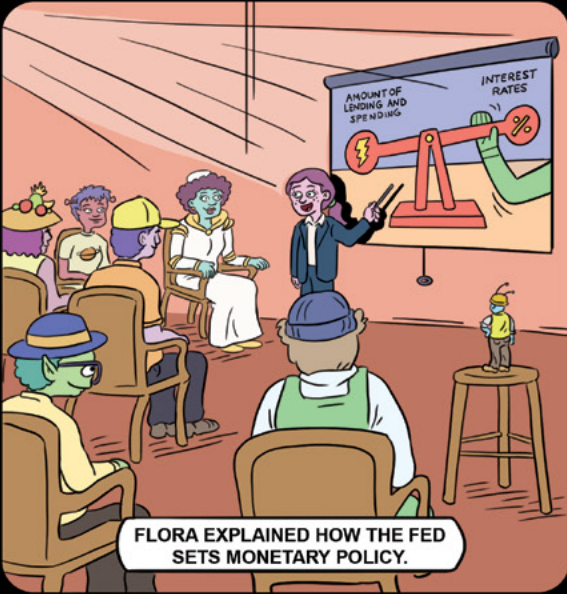
NEWS OF THE UNIVERSE



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.



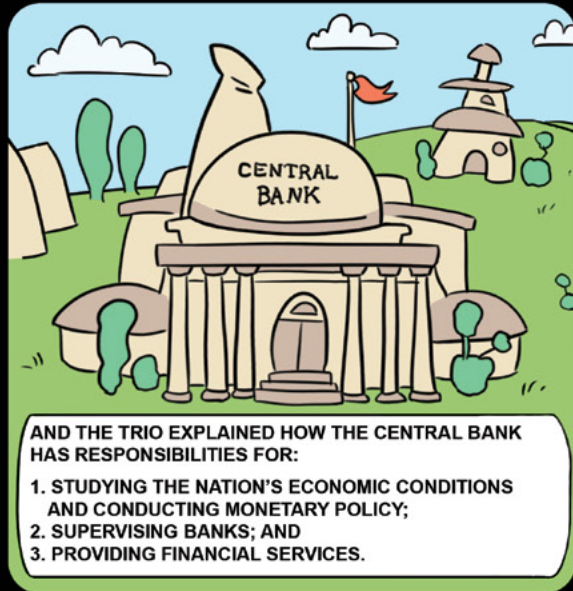
FLORA EXPLAINED HOW THE FED SETS MONETARY POLICY.



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


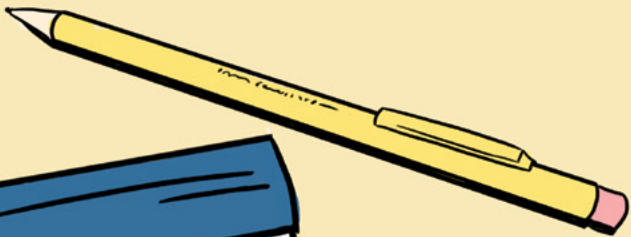


AND GLIX... I MEAN BRAD... SANG ABOUT THE FINANCIAL SERVICES THE FED PROVIDES.

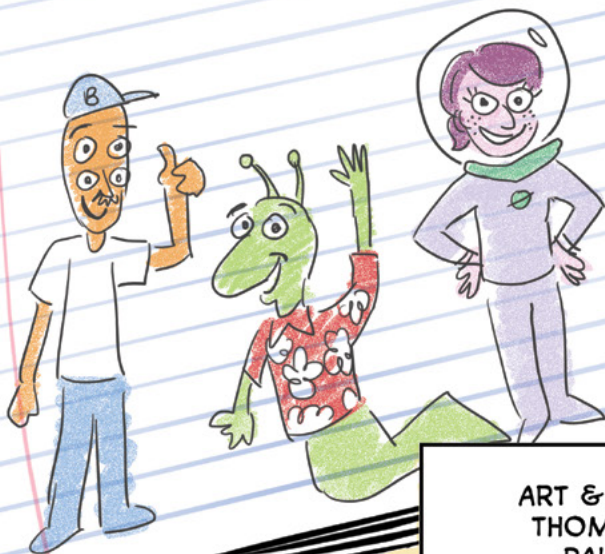


AND THE TRIO EXPLAINED HOW THE CENTRAL BANK HAS RESPONSIBILITIES FOR:

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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