

Econ 323

Economic History of the U.S.

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Today's Topics

<https://www.youtube.com/watch?v=WC-1RFgkiGA>

Federal Reserve

Stock Market

Crash Video

Dates of Bank Panics

- * Panic of 1819
- * Panic of 1837
- * Panic of 1847
- * Panic of 1857
- * Panic of 1866
- * **Panic of 1873**
- * Panic of 1884
- * Panic of 1890
- * **Panic of 1893**
- * **Panic of 1907**
 - New York Knickerbocker Trust Bank lent funds in order to manipulate the stock market
 - After failure, bank run started
 - Bank president shot himself, JP Morgan had to intervene

Creation of Federal Reserve

- Strong consideration after 1907 Panic
- Goal was to reduce bank panics and to manage seasonal interest rate fluctuations (more cash needed in fall harvest/holiday season)
- Federal Reserve Created in 1913 (same year as HSU!)
- Tension between rich Eastern bankers and Western/rural America

The Federal Reserve Act

- Federal Reserve Board and 12 Regional Banks share control of the Central Bank
- Nationally chartered banks (about $\frac{1}{4}$ of all banks, 40% of deposits) were required to join
- Things that were *eventually changed*:
 - Board included the Treasury Secretary
 - New Currency was NOT obligation of the Federal Reserve but rather of the Treasury
 - Regional Banks could set own interest rate

More Changes to The Federal Reserve Act

- Federal Open Market Committee added in the 1930s (this is the group that sets monetary policy)
- By the 1930s, only Federal Reserve Notes circulating as money
- After 1964, only fiat currency and not backed by silver
- In 1970s, Fed required by law to lower unemployment and lower inflation
- 1980 all banks had to hold deposits at Fed