OUTLINE OF LECTURES AND EXTENSION PROBLEMS

by K. R. Bopp, Vice President
Federal Reserve Bank of Philadelphia

at Graduate School of Banking
Rutgers University, New Brunswick, N.J.

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LEcTUK E.

MECHANICS OF THE FEDERAL RESERVE SYSTEM

I. Direct and Immediate Importance of Federal Reserve Actions to Investment Managers
   A. An illustration: Prices of long-term bonds in March and April 1951
   B. Ability of System to deal in Government Securities
      1. It could sell roughly $20 billion
      2. It could buy roughly $40 billion
   C. Relation of System's holdings to
      1. Security prices and yields
      2. Member bank reserves

II. The Primary Role of Bank Reserves in Our Money System
   A. Relation of reserves to the total supply of money
   B. Relation of supply of money to flow of expenditures
   C. The flow of expenditures and economic stability

III. How the Amount of Reserves Changes
   A. Federal Reserve Bank accounting
      1. The accounts must balance
      2. Member bank reserves are a liability of the Federal Reserve Banks
      3. Therefore, every change in reserves must be reflected in other accounts
   E. Major accounts affecting reserves
      1. Assets
         a. Gold certificates
         b. Loans, discounts, and advances
         c. U.S. Government securities
         d. Other assets
      2. Liabilities and capital
         a. Federal Reserve Notes
         b. Government Deposits
         c. Other liability and capital accounts

LECTURE II.

THE HERITAGE OF WAR FINANCE AND FEDERAL RESERVE POLICY

Congress and the Debt

I. War Finance
   A. Growth of the public debt
   B. Ownership of the debt

II. The Structure of Interest Rates
   A. Origin of the "pattern of rates"
   B. Implications of the pattern
   C. Search for alternative methods of influencing the amount of money

(Changing environment of financial - esp. com. banking-institutions)

III. Postwar Federal Reserve Policy
LECTURE III.

FEDERAL RESERVE POLICY IN A GARRISON STATE

I. Economic Resources and Defense

II. Contrast of Prospects: 1941 versus 1951

III. Federal Reserve Policy since the Invasion of South Korea
LECTURE IV.

SELECTIVE CREDIT CONTROLS

I. Basic Differences between Quantitative and Selective Credit Controls
   A. The market as distributor of credit
   B. Regulation of the use of credit

II. Development and Use of Selective Credit Regulations
   A. Stock market credit
   B. Consumer credit
   C. Real-estate credit

III. The all-or-nothing versus the more-or-less approach
EXTENSION PROBLEM

Analysis of Federal Reserve Statements

On June 23, 1949, the Federal Open Market Committee issued the following statement to the press:

The Federal Open Market Committee, after consultation with the Treasury, announced today that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the Government security market, and the confidence of investors in Government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased.

A. Construct a table showing changes in member bank reserves and related items (including maturity distribution of Government securities held by the Federal Reserve Banks as shown monthly in the Federal Reserve Bulletin):

(1) Between December 29, 1948 and June 28, 1949, and

(2) Between June 28, 1949 and December 28, 1949.


2. Interpret the changes between June 28, 1949 and December 28, 1949 in the light of the press release. Analyze particularly changes in Open Market operations, in reserve requirements, and in yields on Government securities.
EXTENSION PROBLEM

Analysis of Current Money Market Trends and Policies

A. For the period June 27, 1950 to September 26, 1950, calculate the changes in the other accounts of the Federal Reserve Banks which were responsible for the change in the member bank reserve accounts.

B. Relate these changes to domestic and international economic developments including Federal Reserve credit policy.
EXTENSION PROBLEM

Analysis of Federal Reserve Statements II.

A. Calculate net changes in the volume and maturity distribution (within 90 days; 91 days to 5 years; and over 5 years) of Federal Reserve Bank holdings of U. S. Government securities during the following intervals:

(1) November 26, 1947 and May 12, 1948
(2) May 12, 1948 and July 14, 1948
(3) July 14, 1948 and November 10, 1948

B. Relate the changes calculated above to changes in reserve requirements, Treasury financing operations, and yields on Government securities.

Note: The maturity distribution of U. S. Government securities held by the Federal Reserve Banks can be found in the Federal Reserve Bulletins at the foot of the pages headed "Principal Assets and Liabilities of All Federal Reserve Banks." The Federal Reserve Chart Book shows changes in yields on Government securities.
EXTENSION PROBLEM

Central Banking Principles

On April 9, 1951, Representative Wright Patman announced that a Congressional subcommittee of which he is chairman would inquire into "current problems and relationships of the Government agencies responsible for general credit control and debt management - the Federal Reserve System and the Treasury Department.

Among the points on which Congressman Patman suggested that the subcommittee concentrate its attention were the following:

(a) "the desirability of further devices by which the monetary authorities might restrict general credit availability, while protecting the Government bond market, particularly the imposition of additional or special reserve requirements upon commercial banks."

(b) "the desirability of broadening the area of selective controls and the possibilities of establishing standards for the direct rationing of credit."

(c) "the question whether steps should be taken to increase the responsibility of the Federal Reserve System to the Executive Department and what degree of autonomy is desirable under present-day conditions."

These are all controversial issues. The answers that we adopt will have very great influence on the future of commercial banking and the functioning of our entire economic system.

Prepare a brief, carefully reasoned memorandum on each of the three items listed, indicating clearly the basis for your conclusions.