March 8, 2009 - " I hear this term (Printing money) used a lot. Other than selling Treasury bills, notes, and bonds to raise money, is there any other mechanism used to 'print money'?"

ANSWER: Yes, the U.S. Treasury, thru the Federal Reserve Bank can create money by issuing Treasury bills, notes, and bonds. The Fed buys and sells these Treasuries. The primary dealer group agrees to purchase them. This has been the historical method of managing money supply. When the Fed wants to add money to the system, it buys Treasuries from the primary dealers. The Fed does a significant number of cash management transactions, as well, designed to manage our money supply.

Recently, interesting new Fed operations are having the same effect. By leveraging the Federal Reserve Balance sheet - making the Fed into a mega-investment bank - the Fed can cause leverage to enter the financial system: leveraging the Fed's balance sheet by guarantying certain bank assets, allowing those banks to sell their assets, and thereby leveraging up their own (the banks') balance sheets. Both the Fed and FDIC guarantees will be used for this purpose. This is the Private/Public Partnership Fund. It is an interesting and creative way to create money.

Actually, the U.S. Treasury is doing something similar under the TALF program, providing its balance sheet to make guarantees on some assets so that those assets can be sold in the secondary market.

In fact, you would also have to include the Treasury's ownership of FNMA and FHLMC, in this category, as well. By guarantying principle and interest payments on these securities, the secondary market for their sale is probably the only active securitization market working today.

I am hardly an expert in Fed operations. My background is on the trading side; but much of my past brokerage life was on the institutional side of the business, working with Banks and Savings and Loan Companies.