



THE MONEY CIRCLE

THEME FOUR: ANALYZE THE ROLE AND TOOLS OF THE FEDERAL RESERVE IN MONETARY POLICY AND PROMOTING A HEALTHY ECONOMY

LESSON TITLE:

Theme 4, Lesson 1: Monetary Policy Basics

Lesson Description:

This lesson helps students understand monetary policy, the Federal Reserve and the mechanisms used by the Federal Reserve to foster a stable economy. This lesson provides an introduction to the U.S. central bank and its role in conducting monetary policy. Students will learn the tools of monetary policy and how they work, as well as explain how the Federal Reserve Bank serves the public by regulating the flow of money.

Grade Level: 9-12

Key Concepts: Federal Reserve, monetary policy, Federal Open Market Committee (FOMC), open market operations, discount rate, reserve requirements

Objectives: Students will be able to:

1. Describe the structure of the Federal Reserve
2. Explain the goals of monetary policy
3. Discuss the tools used by the Federal Reserve to regulate money flow and stable prices

Time Required: Two 50-to 60-minute sessions

Materials:

- The Federal Reserve and You video on the Federal Reserve Education website, www.federalreserveeducation.org/, or order a copy of the video in advance from <http://www.philadelphiafed.org/education/federal-reserve-and-you/index.cfm>
- Visual 1
- Handout 1; one per student
- Handout 2; one per student (optional)
- Handout 2 Answer Key

Procedures:

DAY 1

1. Ask students to name functions of a bank and list them on a smartboard, flipchart, white board, etc. (Answers will vary, but could include services such as a savings accounts, checking accounts, loans, etc.)
2. Ask students if the items listed on the board are functions of a bank for consumers, what would a bank for bankers, or central bank do? Record student responses on the board as well.

Teacher note: Only write accurate responses. Correct answers for the role of a central bank are below.

Central bank: The principal monetary authority of a nation which performs several key functions, including issuing currency and regulating the supply of credit in the economy. The Federal Reserve is the central bank of the United States.

Federal Reserve Bank: One of the 12 operating arms of the Federal Reserve System, located throughout the nation. Together with their 24 branches, the banks carry out various System functions, including operating a nationwide payments system, distributing the nation's currency and coin, supervising and regulating member banks and bank holding companies, and serving as banker for the U.S. Treasury.

3. Explain that our nation's central bank is called the Federal Reserve System and that students will be introduced to the role of the Federal Reserve and its relationship to monetary policy through a video. Go to the Federal Reserve Education website to play the following segments of The Federal Reserve and You video:

- Chapter 1: Introduction (3:50)
 - Chapter 1: Structure of the Federal Reserve (4:10)
 - Chapter 1: Monetary Policy (4:18)
4. Divide students into three small groups and tell them each group will work as a team to compete in a monetary policy quiz game. Read the game rules from Visual 1 to teams. Use the 15 questions on the visual, rotating questions among the three teams, to play the game. Score points and announce the winning team at the end.
 5. State that U.S. monetary policy affects many economic and financial decisions people make daily. Our purchasing and saving decisions relate to how the economy is functioning or how we anticipate it will function. Tell students how price increases and decreases can influence what we buy. (Example: advancement and accessibility of technology has led to lower cost for technological equipment such as cell phones, computers, etc.). Remind students that monetary policy exists to help promote stable prices and a healthy and growing economy.
 6. Ask students to identify the three traditional tools of monetary policy learned from the video segments (*Reserve requirements, discount rate and open market operations*).
 7. Tell students that the three quiz groups will each become experts on one of three monetary policy tools. Explain that you will show a video that highlights each of the three tools and during the video, each group should take notes on important facts about their group's tool in preparation for the next activity. Read aloud the three monetary policy tools listed below. Invite the winning team from the quiz activity to select which of the three tools they'd like to represent. Then assign the other two tools to the remaining teams.
 - Open market operations
 - Discount rate
 - Reserve requirements.

Teacher note: *Replay the video segment if needed. If technology is available, each small group can view their video segment separately.*

9. Tell students they will develop and perform a newscast to share their group's information about their monetary policy tool. Ask each group to write a newscast script that includes the following segments:

- An explanation of what their tool is
 - An overview of how their tool is used by the Federal Reserve
 - The impact their tool has on the economy
10. Each of the three segments of the newscast should be approximately two minutes in length and be accompanied by at least one visual image that enhances the segment. Other materials used can be determined by teacher.
 11. To help students complete this activity in a timely manner, group member roles should be assigned as follows:
 - Note takers: Take notes of important concepts in their segment
 - Writers: Write and edit the newscast based on the group's input
 - Artists: Create at least three visual images to accompany the newscast
 - Presenters: Share the newscast with the rest of the class. This team could include several "anchormen/women" to deliver parts of the presentation.

Teacher note: *There will be multiple members per role depending on the size of the group. The entire group should be involved with brainstorming newscast ideas, developing newscast content and responding to questions received from other students in the class after their presentation.*

12. Ask students to finalize their group's newscast and be prepared to present it to the other groups during the next class period.

DAY 2

13. Give student teams time to polish and practice their newscast presentations.
14. Invite each group to share their newscast with the rest of the class and answer any questions the other groups may have.

Closure:

- 15.** Review key concepts within the lesson. Ask students the following questions:
- What is a central bank? (*The principal monetary authority of a nation which performs several key functions, including issuing currency and regulating the supply of credit in the economy*)
 - How is the Federal Reserve structured? (*A network of 12 Federal Reserve Banks and 24 branches make up the Federal Reserve System under the general oversight of the Board of Governors*)
 - What are the goals of monetary policy? (*To help promote stable prices and a healthy and growing economy*)
 - What monetary policy tools does the Fed use traditionally? (*Reserve requirements, discount rate and open market operations*)

Assessment:

- 16.** Distribute Handout 1 and ask students to write an essay about the Federal Reserve and the impact of monetary policy on consumers based on the question on their handout.

Extension Activity 1:

- 17.** Distribute Handout 2 to each student and ask them to respond to the questions independently.
- Use Handout 2 Answer Key to evaluate accuracy

Alignment to Standards:

National Economic Content Standards:

- Standard 11, Money and Inflation: Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services. The amount of money in the economy affects the overall price level. Inflation is an increase in the overall price level that reduces the value of money.
- Standard 20, Fiscal and Monetary Policy: Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

Common Core Standards:

Writing

- Text Types and Purposes:
 - CCSS.ELA-Literacy.W.9-10.2 Write informative/explanatory texts to examine and convey complex ideas, concepts, and information clearly and accurately through the effective selection, organization, and analysis of content.
 - CCSS.ELA-Literacy.W.9-10.3 Write narratives to

develop real or imagined experiences or events using effective technique, well-chosen details, and well-structured event sequences.

- CCSS.ELA-Literacy.W.11-12.2 Write informative/explanatory texts to examine and convey complex ideas, concepts, and information clearly and accurately through the effective selection, organization, and analysis of content.
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- Production and Distribution of Writing:
 - CCSS.ELA-Literacy.W.9-10.4 Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience. (Grade-specific expectations for writing types are defined in standards 1-3 above.)
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THE FEDERAL RESERVE AND MONETARY POLICY QUIZ GAME

TO OPEN THE QUIZ GAME:

- 1.** Go to <http://moneycircle.kcfed.org>
- 2.** Select the quiz game link.
- 3.** Choose the presentation mode once PowerPoint opens.
- 4.** Click on Enable Content in order for all functionality to work.

The content provided in the quiz game slides follows for reference.

THE FEDERAL RESERVE AND MONETARY POLICY QUIZ GAME KEY (PAGE 1 OF 4)

HOW TO PLAY

- Identify a score keeper and timer (could be one person or the teacher).
- Divide into teams and choose a representative to respond to questions on your team's behalf.
- Teams will take turns to choose and answer a question.
- Each question is worth 25 points. The score keeper should keep a running tally based on correct responses.
- On your team's turn, your representative has ten seconds to respond to the question.
- If your team answers incorrectly or time elapses, the next team has five seconds to answer the question and steal the points with an accurate response.
- The team with the most points wins!

Question 1: How many districts make up the Federal Reserve System?

- A.** Ten
- B.** Twelve
- C.** Fifteen
- D.** Twenty

B. Twelve

Question 2: What does BOG stand for in the Federal Reserve System?

- A.** Branch of Government
- B.** Bank of Governors
- C.** Board of Governors
- D.** Board of Government

C. Board of Governors

Question 3: Which governing body created the Federal Reserve System?

- A.** Congress
- B.** Senate
- C.** U.S. Treasury
- D.** House of Representatives

A. Congress

THE FEDERAL RESERVE AND MONETARY POLICY QUIZ GAME KEY (PAGE 2 OF 4)

Question 4: The Federal Reserve System is considered quasi-government, which means _____?

- A. It is a special group within the government
- B. It is not accountable to the government
- C. It is subject to oversight by the U.S. President, but no other government entity
- D. It is accountable to the government, but managed independently by region

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Question 5: To help prevent political pressures and the U.S. president from "stacking" the Board with his preferences, Board of Governors members serve _____ year terms?

- A. 3
- B. 7
- C. 10
- D. 14

D. 14

Question 6: Primary operating expenses for each Federal Reserve district are funded by what source?

- A. Private and public donations
- B. Interest earnings on securities
- C. Federal government taxes
- D. Fees charged for bank implementation

B. Interest earnings on securities

Question 7: The Federal Reserve's monetary policy-making body, the Federal Open Market Committee, is made up of how many members?

- A. Five
- B. Seven
- C. Ten
- D. Twelve

D. Twelve

THE FEDERAL RESERVE AND MONETARY POLICY QUIZ GAME KEY (PAGE 3 OF 4)

Question 8: Due to open market operations, which Federal Reserve president always has voting rights at the Federal Open Market Committee meetings?

- A. Kansas City
- B. Philadelphia
- C. New York
- D. St. Louis

C. New York

Question 9: Which is not a primary goal of monetary policy?

- A. To promote maximum sustainable employment
- B. To promote stable prices
- C. To promote saving and investing
- D. To promote economic growth

C. To promote saving and investing

Question 10: When demand for goods and services is weak and the economy is in recession, the Fed can infuse money into the economy by _____?

- A. Buying securities from banks, resulting in more money for banks to lend
- B. Selling securities to banks, resulting in more collateral for banks
- C. Paying federal government debt, resulting in more funds available for government use
- D. Printing more money through the Bureau of Engraving and Printing

A. Buying securities from banks, resulting in more money for banks to lend

Question 11: Which of these is a primary function of the Fed?

- A. Advising the U.S. government
- B. Promoting legal rights of consumers
- C. Providing payments services
- D. Authorizing sales transactions

C. Providing payments services

THE FEDERAL RESERVE AND MONETARY POLICY QUIZ GAME KEY (PAGE 4 OF 4)

Question 12: Which of these is included in the definition of monetary policy?

- A. Monetizing raw materials
- B. Buying financial institution debt
- C. Selling mechanisms to ensure safe payment transactions
- D. Influencing the availability of money and credit

D. Influencing the availability of money and credit

Question 13: What is the Fed Funds Rate?

- A. The rate at which banks set all of their loans
- B. The rate at which banks borrow reserves from each other
- C. The rate at which consumers are able to pay off loans
- D. The rate at which consumers can borrow from the Fed's portfolio

B. The rate at which banks borrow reserves from each other

Question 14: Which of these is not a function of a central bank?

- A. Reducing national debt
- B. Issuing currency
- C. Overseeing banks and credit unions
- D. Regulating the supply of money in a country

A. Reducing national debt

Question 15: Which is not a primary concern when conducting monetary policy objectives?

- A. Growth in markets
- B. Employment rates
- C. Trends in consumer consumption
- D. Economic conditions specific to one region

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MONETARY POLICY BASICS ASSESSMENT

Write an essay in response to the question below.

How does the Federal Reserve impact my life as a consumer, specifically my ability to find employment, the prices I pay for goods and services, interest rates on my loans and/or savings, and my legal right to access credit?

EXTENSION ACTIVITY

1. *When was the Federal Reserve System established?*
 - A. 1910
 - B. 1913
 - C. 1915
 - D. 1921

2. *Which is a function of the Federal Reserve?*
 - A. establishing tax rates
 - B. managing government spending
 - C. raising and lowering short-term interest rates
 - D. overseeing government investments

3. *Which governing body is primarily responsible for conducting monetary policy?*
 - A. Federal Deposit Insurance Corporation
 - B. Senate
 - C. Federal Open Market Committee
 - D. Congress

4. *What is the purpose of monetary policy?*
 - A. To keep unemployment at 0%
 - B. To keep prices the same
 - C. To maintain a 0% inflation rate
 - D. To influence the economy

5. *Monetary policy can impact long-term employment rates.*
 - A. True
 - B. False

6. *Which is not a result of inflation?*
 - A. Unstable prices
 - B. Economic growth
 - C. Reduced value of currency
 - D. Redistribution of wealth to borrowers

7. *Which is not a focus of monetary policy?*
 - A. regional economic indicators
 - B. maximum sustainable output
 - C. stable prices
 - D. maximum sustainable employment

8. *Monetary policy is based on stock market activity.*
 - A. True
 - B. False

EXTENSION ACTIVITY ANSWER KEY

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