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 2: The Economy and Me

Lesson Description:
This lesson helps students understand how inflation affects economic conditions and how the Federal Reserve conducts monetary policy to curb inflation for consumers. Additionally, through review of current economic conditions, students will have an opportunity to learn more about economic sectors and decisions related to economic stability, similar to the role of the Federal Reserve.

Grade Level: 9-12

Key Concepts: Consumer price index (CPI), deflation, inflation, price level, price stability, Federal Open Market Committee (FOMC), Federal Reserve

Objectives: *Students will be able to:*
1. Define inflation and price level
2. Discuss how inflation can affect economic conditions
3. Explain how the Federal Reserve's monetary policy can help keep prices stable

Time Required: Two 50- to 60-minute sessions

Materials:
- The Fed Explains Inflation video (4:14 minutes), available online at *http://www.frbatlanta.org/news/multimedia/12fedExplained_inflation.cfm*
- Making Sense of the Ups and Downs of Prices (Page One Economics, August 2013), available online at *http://www.stlouisfed.org/education_resources/making-sense-of-the-ups-and-downs-of-prices-page-one-economics-classroom-edition/*
- Handout 1; one per student
- Visual 1 (Handout 1 Answer Key)
- Beige Book report (most recent), available online at *http://www.federalreserve.gov/monetarypolicy/beigebook/default.htm*; one per student
- Handout 2; one per student

Procedures:

DAY 1

1. Ask students to name an item that seems to fluctuate in price. *(Answers will vary, but could include gasoline, milk, meat or certain fruits and vegetables, computers, notebooks, etc.)*

2. Tell students that price stability, or prices that remain constant, are important to consumers so they can allocate dollars for their purchases.

3. Ask students to share their thoughts about how price stability affects their lives. *(Answers will vary, but may include the rise and fall of gasoline, which can affect their disposable income, and the price of items like movie tickets or the latest versions of technology such as cell phones, computers, mobile devices, etc.)*

Teacher note: The latest versions of technology are consistently priced high until the market is saturated with them and the price decreases, making them available to more consumers.

4. Ask students to explain what they think the impact to the economy might be if there was not enough money available to consumers to make purchases. *(Answers will vary, but may include that consumers would pay higher prices or stop buying as much.)*

Teacher note: To provide context, you can use examples like natural disasters (such as Hurricane Katrina) or major events such as 9-11.

5. Explain that the U.S. central bank, the Federal Reserve, is responsible for issuing currency and managing the supply of money and credit in the economy. The Federal Reserve, also known as the Fed, uses monetary policy to promote stable prices and a healthy and growing economy. Monetary policy also helps to maintain the value of our nation's currency.

6. Introduce inflation as the continuing rise in the average price level of goods and services as a whole. Tell students they will watch a short video (four minutes in length) that provides an overview of inflation and how it connects to the Fed's role within the economy.

7. Show the Fed Explains Inflation video and ask students the following questions:

- What is price level? *(The average price of goods and services sold over a period of time)*
- How are cost of living increases in price level different from inflation increases? *(Cost of living increases relate to shortages of goods and services; inflation increases relate to the amount of money in circulation)*
- How does the Fed affect the price level of goods and services? *(Through changes in the supply of money and credit available)*

8. Divide students into pairs. Distribute copies of Making Sense of the Ups and Downs of Prices article and Handout 1 to the students and ask them to work with their partners to read the excerpt and answer the questions in the handout.

9. As a class, review the answers to Handout 1 using Visual 1.

DAY 2

10. Ask students to share their thoughts about current economic conditions. Is the economy doing well or poorly?

11. Tell students there are indicators or categories within the economy that can help economists and others know how the economy is doing. Share examples of economic categories, such as consumer spending and tourism, real estate and construction, banking and finance, and agriculture and natural resources.

12. Distribute a copy of the most current Beige Book Report Summary to each student. Inform the students that the Beige Book is a summary of economic conditions published after each meeting of the Federal Open Market Committee. The report is comprised of information gathered by each Federal Reserve Bank, including Federal Reserve Bank staff and Branch directors, key business contacts, economists, market experts and other sources.

13. Ask students to read the first few introductory paragraphs (before any of the bold economic category headings) of the summary section.

14. Divide students into small groups and explain that each group will represent an economic category (highlighted in bold) within the report. Each group will report on that category to the rest of the class.

Teacher note: The Beige Book reports may differ slightly in reference to the economic categories that are delineated. The number of small groups should correspond to the number of economic categories in the report. Economic category assignments can be selected by groups on a first come, first serve basis or by the teacher. In the review and presentation, students can include information about their economic category from the report summary as well as from each of the 12 Federal Reserve District reports that follow the summary.

15. After ensuring each small group knows their assigned category, distribute a copy of Handout 2 to the students and encourage them to use this as a guideline in their review and current outlook presentation to the class.

16. Invite each group to present a "current outlook" of their economic category to the rest of the class using Handout 2 as a guideline.

17. Allow time for small groups to work together to review information about their economic category and to prepare their current outlook presentation, where all members of the group should have a speaking part.

Closure:

18. Review key concepts within the lesson. Ask students the following questions:

- What is inflation? *(The continuing rise in the average price level of goods and services)*
- What is price level? *(The average price of goods and services sold over a period of time)*
- How can inflation affect economic conditions? *(Inflation can affect how businesses price their goods and services; it also devalues money and makes saving and investing less profitable for consumers)*

- How does the Fed's monetary policy help to keep prices stable? *(Using monetary policy to promote a low and stable inflation rate by influencing interest rates and the money supply over the long run)*

Assessment:

19. Ask students to write a bulleted list of three to five economic conditions that might cause the Federal Reserve to make changes in monetary policy. Encourage students to refer to the Beige Book report for reference.

Teacher note: Example responses could include an increase in the unemployment rate, the rising level of prices, a slowdown in real estate construction, fewer loans available to consumers, a decrease in wages, etc.

Extension Activity 1:

20. Encourage students to watch the news or read the newspaper in an effort to identify updates related to economic conditions in certain areas of the economy or how current economic conditions have affected consumers.

- Ask students to summarize the news in five or six sentences, including the related economic categories and consumer impact.

Extension Activity 2:

21. Ask students to read and complete the "Calculate the CPI" activity found at the end of the Making Sense of the Ups and Downs of Prices article. (Page One Economics, August 2013)

Alignment to Standards:

National Economic Content Standards:

- Standard 7, Markets and Prices: A market exists when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.
- 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 18, Economic Fluctuations: Fluctuations in a nation's overall levels of income, employment and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies and others in the economy. Recessions occur when overall levels of income and employment decline.
- 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:
Reading Informational Text:

- Key Ideas and Details:
  - CCSS.ELA-Literacy.RI.9-10.2 Determine a central idea of a text and analyze its development over the course of the text, including how it emerges and is shaped and refined by specific details; provide an objective summary of the text.
  - CCSS.ELA-Literacy.RI.11-12.2 Determine two or more central ideas of a text and analyze their development over the course of the text, including how they interact and build on one another to provide a complex analysis; provide an objective summary of the text.

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.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.
- 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.)
  - CCSS.ELA-Literacy.W.11-12.4 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.)
- Research to Build and Present Knowledge:
  - CCSS.ELA-Literacy.W.9-10.9 Draw evidence from literary or informational texts to support analysis, reflection, and research.

MAKING SENSE OF THE UPS AND DOWNS OF PRICES
DISCUSSION QUESTIONS

Q: What is inflation and how is it measured?

Q: What are the unexpected consequences and costs of inflation?

Q: How does price stability impact consumers and producers, and how does it relate to the Federal Reserve?

MAKING SENSE OF THE UPS AND DOWNS OF PRICES
DISCUSSION QUESTIONS ANSWER KEY

Q: What is inflation and how is it measured?

Inflation is the rise in the general price level, and the most commonly agreed upon tool for measurement is the Consumer Price Index.

Q: What are the unexpected consequences and costs of inflation?

The unexpected costs and consequences of inflation can be summarized as:

- Inflation is costly for anyone who holds on to a large amount of cash (in a non-interest-bearing account) because cash will not buy as much tomorrow as it will today.
- When prices change, as occurs with inflation, businesses either have to change prices to keep pace with inflation or operate at prices that do not maximize profits.
- Inflation causes the prices of some goods to rise more than others, so when consumers make these price comparisons in times of inflation, they are using garbled price information and resources are not allocated to their best use.
- Inflation erodes money's ability to maintain a constant value.
- Because not all interest rates on investments or debt take inflation into account, inflation benefits those who borrow money by lowering the real cost of their debt. And, conversely, unexpected inflation hurts investors, savers and lenders by lowering the real return on their assets.

Q: How does price stability impact consumers and producers, and how does it relate to the Federal Reserve?

When inflation is low and stable, both producers and consumers are better able to plan for the future, keeping economic growth and employment stable as well. The Fed uses monetary policy to promote a low and stable inflation rate (around 2 percent) by influencing interest rates and the money supply over the long run.

THE ECONOMY AND ME

Economic category:

Growth status:

Geographic regions influenced:

Status of specific goods/services within sector:

Impact of economic sector conditions to consumers and economy:

Future projections: