

Your Introduction to *The Federal Reserve and You*

Lesson Description

In this lesson, students view a film segment from *The Federal Reserve and You* that introduces the Federal Reserve. Using an anticipation/reaction guide, students learn what the Fed is, what it does, and what its impact on the economy is.

Grade Level

6–12

Lesson Author

Bonnie Meszaros, Ph.D.
University of Delaware

Standards and Benchmarks

See page 4.

Concepts

Federal Reserve
Central Bank
Monetary Policy Goals

Time Required

45 minutes

Materials

- Film segment: “Introduction” from Chapter 1: The Federal Reserve and You of *The Federal Reserve and You*. The film is available streaming in 720p at philadelphiafed.org/education/the-federal-reserve-and-you. You may also order a standard definition DVD of the film at the same address.
- Handout 1: Anticipation/Reaction Guide, one copy for each student
- Handout 2: Assessment, one copy for each student

Objectives

Students will:

1. Explain the purpose of a central bank.
2. Describe what makes the Federal Reserve a decentralized central bank.
3. Explain what the Fed does.
4. List the monetary policy goals of the Federal Reserve.
5. Explain the importance of the Federal Reserve in the lives of everyday citizens.

Procedures

1. On the board, write “Federal Reserve.” Ask students by a show of hands how many of them have heard of the Federal Reserve and how many know what the Fed does. Tell students that in this lesson they are going to learn about the Federal Reserve and what it does.
2. Distribute a copy of *Handout 1: Anticipation/Reaction Guide* to each student. Ask students to complete Column A (Before Viewing Film) by indicating whether they agree or disagree with each statement.
3. Explain to the students that they are going to watch a film segment from *The Federal Reserve and You*. In the film clip, they will learn about the Federal Reserve and the role it plays in the economy. Point out to students that they are to complete Column B (After Viewing Film) of *Handout 1* at any time during or after viewing the film segment.
4. Play the “Introduction” segment from Chapter 1: The Federal Reserve and You of *The Federal Reserve and You*.
5. Discuss the following:
 - a. What is the **Federal Reserve**? (*The central bank of the United States*)

- b. What is a **central bank**? (*A country's central bank regulates the supply of money in a country, issues currency in the country, and oversees the country's banks.*)
- c. What makes the Federal Reserve a decentralized bank? (*The Federal Reserve is not one bank. It has 12 regional Federal Reserve Banks spread out across the country. The 12 Federal Reserve Banks are overseen by the Board of Governors of the Federal Reserve System located in Washington, D.C.*)
- d. What does the Federal Reserve do? (*The Fed supervises many of the nation's banks to make sure they stay healthy and play by the rules; oversees the payments system to make sure payments go where they are supposed to go; and conducts monetary policy, which affects interest rates.*)
- e. What is an economy? (*A system by which goods and services are produced, sold, and bought in a country or region*)
- f. What are the **monetary policy goals** of the Federal Reserve? (*Keep the economy growing by promoting stable prices and maximizing employment*)
- g. How does the Fed affect the lives of ordinary citizens? (*In making monetary policy, the Fed affects interest rates, such as mortgage, auto, and education loan rates, which everyone pays. The Fed protects the quality and value of our money and strives to create an environment that fosters job growth and keeps people working.*)
6. Ask students to complete, if they have not already done so, Column B (After Viewing Film) of *Handout 1*. Review answers with the students. (*Statements 1, 2, and 4 are true and students should agree with these statements.*) Ask students to explain why statements 3, 5, and 6 are false. (*For statement 3, students should understand that the Federal Reserve is different from the banks they and their parents use. The Fed does not make loans to individuals and individuals cannot have deposit accounts at the Fed. For statement 5, students should understand that the Fed does supervise and regulate many of the nation's banks in addition to conducting monetary policy and overseeing the nation's payments system. For statement 6 students should mention the affect of monetary policy on interest rates and how that can affect the interest rates people pay on loans they take out and the roles the Fed plays in maintaining stable prices and maximizing employment, making sure that payments go where they are supposed to go and ensuring that the nation's banks operate safely and soundly.*)
7. Divide students into pairs to complete the following write/pair/share activity. Instruct students to write an answer to the question: "What have you learned about the Federal Reserve?" in Section C of *Handout 1*. Have the partners share their answers with each other and then report aloud to the class one thing they learned from the film. (*Answers will vary.*)

Closure

8. Review important content from the lesson by discussing the following:
- What is the Federal Reserve? (*Our nation's central bank*)
 - What is a central bank? (*A central bank regulates the supply of money in a country, issues currency in the country, and oversees the country's banks.*)
 - How does the Federal Reserve differ from other central banks? (*The Federal Reserve is a decentralized central bank. It has 12 regional banks spread out across the United States.*)
 - What does the Fed do? (*It supervises many of the nation's banks to make sure they stay healthy and play by the rules; oversees the payments system to make sure payments go where they are supposed to go; and conducts monetary policy, which affects interest rates.*)
 - What are the monetary goals of the Federal Reserve? (*Maintain a healthy and growing economy by promoting stable prices and maximizing employment.*)
 - What is one way the Federal Reserve affects your daily life? (*Answers will vary but might make reference to how the Fed's monetary policy influences interest rates, which affect the rate parents pay on a*

mortgage and the rate a student pays for a car loan or a loan for college. The Fed is charged by Congress to keep prices from rising or falling by very much and to maximize employment so that people have jobs. Because the Fed supervises our nation's payments system, students can be confident that the payments they make go where they are supposed to go. In general, the Fed influences the economy. Students are part of the economy, so the Fed affects their lives.)

make sure they are sound, oversees the payments system to make sure payments go where they are supposed to go, and conducts monetary policy.

- *The monetary goals of the Federal Reserve are to keep the economy growing while maintaining stable prices and maximizing employment.*

Assessment

9. Distribute a copy of *Handout 2: Assessment* to each student.

Suggested answers:

- a. *One goal of the Federal Reserve's monetary policy is to keep prices stable. In January 2012, the FOMC announced that it believes that an inflation rate of 2 percent is most in keeping with its goal to keep prices stable. The second goal of the Federal Reserve's monetary policy is to maximize employment. It is often hard to measure what the unemployment rate is in keeping with that goal, but the FOMC has said that it believes that the normal rate of unemployment is between 5.2 and 6.0 percent. Finally, the Current FAQs also mentions that the Federal Reserve tries to keep long-term interest rates moderate.*
- b. *It is important for the Federal Reserve to clearly explain its monetary policy decisions to the public because this information helps businesses and households to make better decisions. When the Federal Reserve clearly explains its monetary policy decisions, it also helps to reduce economic and financial uncertainty, makes monetary policy more effective, and increases the amount of information that Americans have about what the Federal Reserve is doing. Allowing the public to have this information is important in our democratic society.*
- c. The PowerPoint should include the following points:
 - *A central bank regulates the supply of money in a country, issues currency in the country, and oversees the country's banks. The Federal Reserve is a unique central bank because it is made up of 12 regional Reserve Banks.*
 - *The Fed supervises many of the nation's banks to*

Standards and Benchmarks

NATIONAL STANDARDS IN ECONOMICS

Standard 20: Students will understand that the federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

- Benchmark 7, Grade 12: Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money, short-term interest rates, and the availability of credit. Changes in the growth rate of the money supply can influence overall levels of spending, employment, and prices in the economy by inducing changes in the levels of personal and business investment spending.

Common Core State Standards

English Language Arts & Literacy Standards in History/Social Studies and Technical Subjects, Grades 6-12

Reading Standards for Literacy in History/Social Studies 6-12

- Grades 6-8, Craft and Structure (RH.6-8.4): Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.
- Grades 6-8, Integration of Knowledge and Ideas (RH.6-8.7): Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.
- Grades 9-10, Craft and Structure (RH.9-10.4): Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- Grades 9-10, Integration of Knowledge and Ideas (RH.9-10.7) Integrate quantitative or technical analysis (e.g., charts, research data) with qualitative analysis in print or digital text.
- Grades 11-12, Key Ideas and Details (RH.11-12.1): Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- Grade 11-12, Key Ideas and Details (RH.11-12.2) Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.
- Grades 11-12, Integration of Knowledge and Ideas (RH.11-12.7): Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.

Writing Standards for Literacy in History/Social Studies, Science, and Technical Subjects 6-12

- Grades 6-8, 9-10, and 11-12: Research to Build and Present Knowledge (WHST.6-8.9, WHST.9-10.9, WHST.11-12.9): Draw evidence from informational texts to support analysis, reflection, and research.

English Language Arts & Literacy Standards, Grades 6-12

Speaking and Listening 11-12

- Grades 11-12, Presentation of Knowledge and Ideas (SL.11-12.4): Present information, findings, and supporting evidence, conveying a clear and distinct perspective, such that listeners can follow the line of reasoning, alternative or opposing perspectives are addressed, and the organization, development, substance, and style are appropriate to purpose, audience, and a range of formal and informal tasks.
- Grades 11-12, Presentation of Knowledge and Ideas (SL.11-12.5): Make strategic use of digital media (e.g., textual, graphical, audio, visual, and interactive elements) in presentations to enhance understanding of findings, reasoning, and evidence and to add interest.

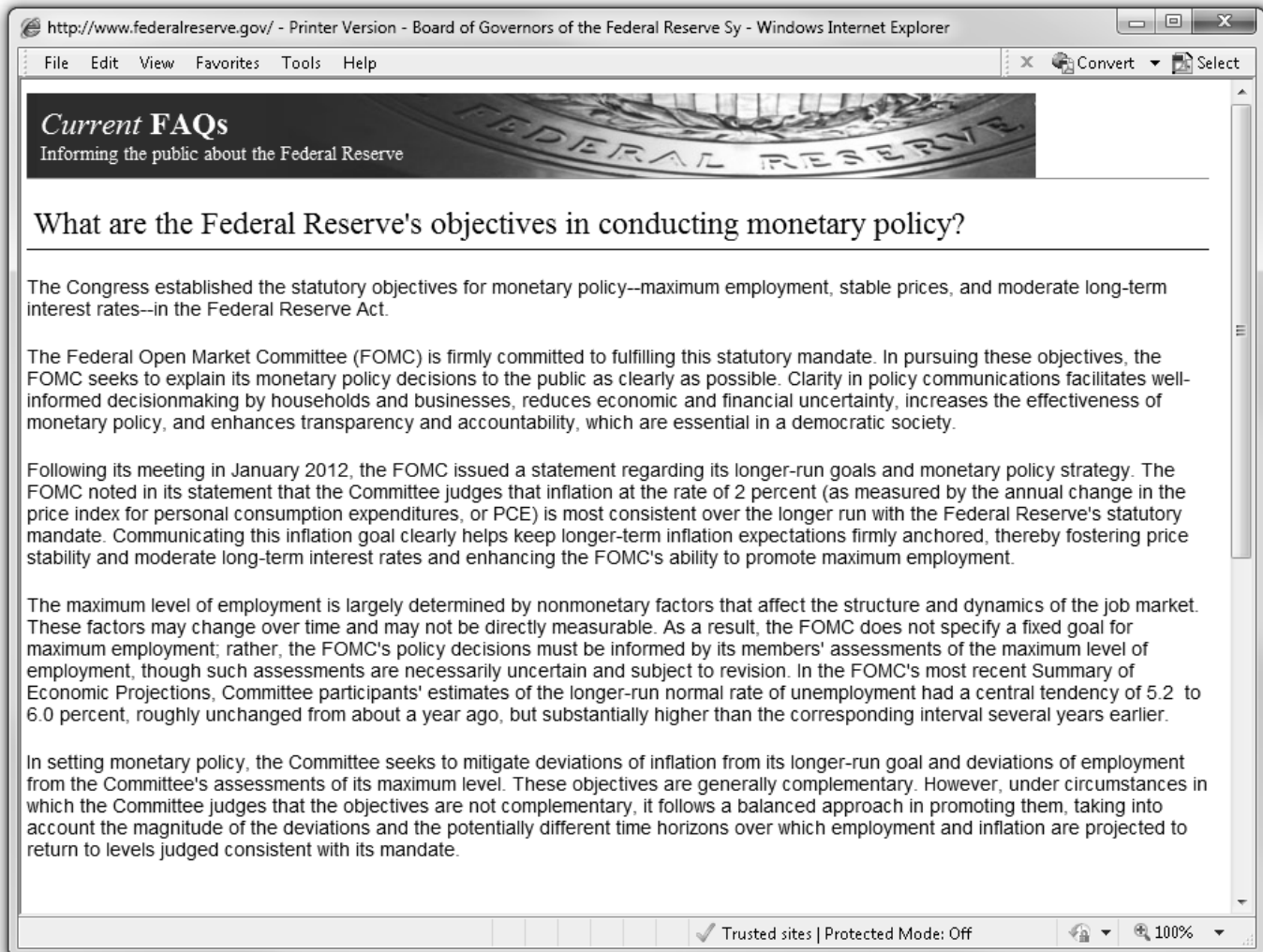
Handout 1: Anticipation/Reaction Guide

Directions: Read each of the statements below and in Column A—Before Viewing Film, write “Agree” if you believe the statement is true and “Disagree” if you believe the statement is false. After you have viewed the film clip, you will have the opportunity to update your answers by entering “Agree” or “Disagree” in Column B—After Viewing Film. Following the class discussion, answer the question, “What have you learned about the Fed?” in section C below. Share your answer with a partner.

Column A Before Viewing Film (Anticipation)	Statements About the Federal Reserve	Column B After Viewing Film (Reaction)
	1. The Federal Reserve is the central bank of the United States.	
	2. The Federal Reserve is a decentralized central bank with a number of banks across the country.	
	3. The Federal Reserve functions much like the banks in your community.	
	4. The monetary policy goals of the Federal Reserve are to promote price stability and full employment.	
	5. The Federal Reserve conducts monetary policy and oversees the nation’s payments system but is not involved in supervising and regulating many of the nation’s banks.	
	6. The Federal Reserve has little to do with the lives of ordinary people.	
C. What have you learned about the Fed?		

Handout 2: Assessment

Directions: Read the following answer to a frequently asked question (FAQ) from the website of the Board of Governors of the Federal Reserve System and answer questions a and b on the second page of this handout. All answers should be written in paragraph format. A well-written answer must include (1) introduction of your main idea; (2) definition, details, and evidence to support your main idea; and (3) a concluding statement that sums up your idea.



http://www.federalreserve.gov/ - Printer Version - Board of Governors of the Federal Reserve Sy - Windows Internet Explorer

File Edit View Favorites Tools Help

Convert Select

Current FAQs

Informing the public about the Federal Reserve

What are the Federal Reserve's objectives in conducting monetary policy?

The Congress established the statutory objectives for monetary policy—maximum employment, stable prices, and moderate long-term interest rates—in the Federal Reserve Act.

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling this statutory mandate. In pursuing these objectives, the FOMC seeks to explain its monetary policy decisions to the public as clearly as possible. Clarity in policy communications facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

Following its meeting in January 2012, the FOMC issued a statement regarding its longer-run goals and monetary policy strategy. The FOMC noted in its statement that the Committee judges that inflation at the rate of 2 percent (as measured by the annual change in the price index for personal consumption expenditures, or PCE) is most consistent over the longer run with the Federal Reserve's statutory mandate. Communicating this inflation goal clearly helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the FOMC's ability to promote maximum employment.

The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the job market. These factors may change over time and may not be directly measurable. As a result, the FOMC does not specify a fixed goal for maximum employment; rather, the FOMC's policy decisions must be informed by its members' assessments of the maximum level of employment, though such assessments are necessarily uncertain and subject to revision. In the FOMC's most recent Summary of Economic Projections, Committee participants' estimates of the longer-run normal rate of unemployment had a central tendency of 5.2 to 6.0 percent, roughly unchanged from about a year ago, but substantially higher than the corresponding interval several years earlier.

In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level. These objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

Trusted sites | Protected Mode: Off

100%

Source: Board of Governors of the Federal Reserve System. "What Are the Federal Reserve's Objectives in Conducting Monetary Policy?" *Current FAQs: Informing the Public About the Federal Reserve*, 2012, available at www.federalreserve.gov/faqs/money_12848.htm. (accessed July 25, 2013).

Your Introduction to *The Federal Reserve and You*

©2013 Federal Reserve Bank of Philadelphia. Permission is granted to reprint or photocopy this lesson in its entirety for educational purposes, provided the user credits the Federal Reserve Bank of Philadelphia, www.philadelphiafed.org/education.

**THE FEDERAL
RESERVE
AND YOU**

Handout 2 (continued)

- a. What goals does the Federal Reserve have for its monetary policy? Who gave those goals to the Federal Reserve? Cite specific evidence from the Current FAQs to support your answer.
- b. Why is it important for the Federal Reserve to clearly explain its monetary policy decisions to the public?
- c. You have been asked to give a presentation to a group of middle school students who are members of the school's Economics Club. They are planning on taking a trip to visit a Federal Reserve Bank in the District in which they live and need to know about what the Fed does. Here is what they would like you to cover in your presentation.
- They want to know what a central bank does. They have heard that the Fed is a decentralized central bank and want to know what this means.
 - They are curious about what the Fed does.
 - They have heard about the Fed's monetary goals but aren't sure what they are.

Prepare a PowerPoint presentation that includes the information the group has requested.