Federal Reserve Bank of Chicago

What We Do

Lesson plan and activities for economics, government, and history teachers

What We Do
A lesson plan to accompany the video by The Federal Reserve Bank of Chicago

Introduction

The Federal Reserve System is the central bank of the United States. It was established by Woodrow Wilson and Congress through the Federal Reserve Act of 1913. The Fed's primary function is to ensure price stability and long-term sustainable economic growth. It is also charged with keeping our banks safe through regulation and with ensuring a smooth and secure system of payments. Made up of the Board of Governors located in Washington, D.C., and 12 Reserve Banks around the country, the Federal Reserve monitors how the economy is performing in terms of job growth, sales and business inventories. The Federal Reserve Bank of Chicago is situated in the heart of the Midwest.

Grade Levels

9-12, Introductory College Courses

Concepts

Federal Reserve System
ACH (Automated Clearing House)
Economy
Bank Panics
Monetary Policy
Interest Rate
Price Stability
Regulation
Methods of Payment

High School Content Standards

National Voluntary Content Standards in Economics
Content Standards 10, 11 and 20

Indiana
Economic Standards: E.6.1, E.6.3, E.6.4 and E.7.7

Wisconsin
Economic Standards: D.12.5, D.12.9 and D.12.14

Illinois
Economics State Goal: 15.E.5b

Iowa
Finance Content Standards: Economics Benchmark 1

Michigan
Social Studies Content Expectations: E2.1.3, E2.2.1 and E2.2.4
Personal Finance Content Standards: PF.3.6.4

Pre-Viewing Activity

Lesson Description

Students will participate in an activity that examines what our economy might have been like before the establishment of the Federal Reserve System. Students will experience a situation where there is no central monetary authority like the Fed to come to the aid of the economy.

Objectives

Students will:

1. Identify the need for establishing the Federal Reserve.
2. Identify the relationship between price levels and the money supply in an economy.
3. Describe the importance of price stability.

Time Required

Two 50-minute class periods (for all included activities.)

Materials

– One small plastic container
– Two each of three different items to sell (candy bars, bonus point certificates, etc.)
– Visual 1*, Money Supply Round 1
– Visual 2*, Prices Round 1
– Visual 3*, Money Supply Round 2
– Visual 4*, Prices Round 2
– Visual 5*, Prices Round 1 vs. Round 2
– Visual 6*, Federal Reserve District Map

**Visuals available on accompanying Powerpoint presentation.*

– Activity 1, one copy per student
– Activity 2, one copy per student
– Activity 3, one copy per student
– Activity 4, one copy per student

Preparation

1. Prepare currency pieces for class. There should be a total of eight pieces of currency for each student. Make copies of currency as needed. (Currency pieces included for 20 students.)
2. Prepare three items that you will auction. These should be items produced in your simulated economy. (Display on desk.)

Procedure

1. Explain to the students that they will be learning about the Federal Reserve System. Explain that to understand the need for a central bank, they will need to experience what an economy might be like without the Federal Reserve.

   Explain that during the 19th Century, there was no central monetary authority. Currency was being issued by many banks. As more notes were issued, currency would begin to lose its purchasing power (the currency couldn't buy as much). Explain that this was a difficult environment for people to live and work in.

2. **Discuss the following:**

   a. How many of you are thinking about or have recently purchased a new or used car?

   b. Are you concerned the price will rise unexpectedly while you are saving up your money? (No.)

   c. If you weren't able to predict with some certainty how much something would cost in the future, would you be more or less likely to save your money? (Answers will vary and skew toward "less." The point is to illustrate that there is a relationship between savings and price stability.)

   d. Would you be more or less likely to purchase something today if you weren't reasonably sure what the price would be in three to six months? (Probably less likely, as there would be a chance that the price would go down. You can explain that this illustrates how important it is for people to be able to predict price levels with some degree of comfort. If people aren't feeling confident about price levels, they will buy less; therefore, fewer people would be needed to work at banks, factories, and in the fields.)

   e. And finally, how much money is there in the U.S. economy? (Answers will vary, but the point of the question is to have the class realize that in a modern economy money is more than what is just in our pockets as printed currency. It also includes all our savings and checking accounts. Printed currency is a small portion of the overall money supply.)

3. Explain to the students that your classroom is an economy in the mid-1800s. Explain that an economy is a system for making and distributing goods and services. Tell the students that they will all be consumers and that you will be the sole producer of products.

4. Pick a student banker and ask him or her to hand out three to five pieces of currency to each student. While the student banker is doing this, describe each of the three items that you have already decided your simulated economy will produce. (Remember not to let them know that there will be two rounds.)

5. Once each student has his or her currency pieces, display Visual 1, "Money Supply Round 1." Tell each student to count up his or her currency. Then add the amounts for the entire classroom and record it on Visual 1.

6. Explain to the students that you are now going to auction off your products (The three items can be displayed in advance.) Show the students what three products you have to sell. (Remember, do not let them know that there will be another round.) Tell them that the highest bidder will receive each product. Tell students that if they wish to bid, they must first raise their hand. Recognize the student whose hand you see first and let them give their bid. Bids can only be made in increments of one piece of currency at a time. (Do not share that they don't get anything for saving their "money," as the incentives would be warped – let savers save!)

7. Conduct an auction for each of the three items you have to sell. Record the amount each item sold for in the "Round 1 Prices" column on Visual 2. Take the amount of money the student bid and give the winner what he or she purchased.

8. Calculate the money supply after the auction. It should be the same as before. The only difference is that the producer (the teacher) now has some money that students had prior to purchasing the items. You can now go back to Visual 1 to illustrate how the total hasn't changed.

9. Collect all currency pieces as if the game has ended.

10. **Discuss the following:**

    a. How do we know what one piece of currency is worth? Similarly, how do we know what one U.S. dollar is worth? (Answers will vary, but ultimately a dollar is worth what it can purchase and has no innate value.)

    b. Would it have made a difference if you were given more money? (Answers will probably be, "Yes, I could've bought one of the items.")

    c. Are auctions a realistic way to think about the way we purchase things? (It isn't perfect, but it does a quick job of modeling supply and demand and obtaining a "clearing" price.)

11. Explain to students that no one controls how much the bank puts into circulation and that the bank has decided to print additional currency. Given that, you want to give everyone another chance to obtain the auction items. Direct the student banker to hand out five to eight pieces to each player.

12. Once each student has his or her pieces of currency, display Visual 3, "Money Supply Round 2." Tell each student to count up his or her currency. And then add the amounts for the entire classroom and record it on Visual 3.

13. Take out the duplicate auction items and present them again on your desk/podium.

14. Now conduct the second auction of the same products exactly as you did the first.

15. Record the prices of each item sold in the column "Round 2 Prices" on Visual 4.

16. Tell the class to compare the pricing from Round 1 and Round 2 by showing Visual 5. (The price of the products likely increased, but nothing new was created. There was simply more money in the economy.)

17. **Discuss the following:**

    a. Ask how many students had more currency in the second auction round than the first? (Most will raise their hand.) Ask if they felt richer? (They will eventually realize that since prices rose they were not really better off. Explain that this is what we call "inflation" – a general rise in price levels.)

    b. Did the economy produce any more items? (No. Same three items.)

    c. Does having more money make you wealthier? (No, because it depends what it can buy. The value of currency is determined by its "purchasing power." Explain that this is one of the most important roles of the Federal Reserve – maintaining price stability through monetary policy – controlling the money supply.)

Viewing – What We Do

1. Display Visual 6, Federal Reserve System District Map. Explain to students that the Federal Reserve System was established in 1913 in response to bank panics and inflation problems that occurred in the U.S. around the start of the 20th Century, especially during the Panic of 1907. Explain that the Federal Reserve System is actually divided into 12 geographic districts, with a Federal Reserve Bank in each one. Twelve districts were established so that the needs of each geographic area could be more suitably met.

2. Explain that students will watch a video that gives details about what the Federal Reserve does. Explain that this video was developed by the Federal Reserve Bank of Chicago (representing the Seventh District, the upper Midwest). Point out the Seventh District on the map (Visual 6) if your school happens to be within the Seventh District.

3. Divide students into groups of two. Hand out a copy of Activity 1 (p.18) to each student. Ask students to watch the video and find as many answers to the questions as possible. Allow each pair to compare answers and record answers that were missed. (Do not assume that each pair will be able to record all the answers. Any missed answers will provide an opportunity for classroom discussion later.)

Post-Viewing – Closure

1. Ask each group of students how many questions they were able to answer from the video for Activity 1 (answers below). Go through each question and ask for a volunteer to read the answer he or she found. Make certain each question has been answered correctly.

ACTIVITY 1: Answers

1. The U.S. economy.
2. One that is growing at a steady rate.
3. Price stability in a growing economy.
4. Periodic crises, bank panics, runs on banks, deep recessions/depressions, and financial panics.
5. Woodrow Wilson.
6. December 23, 1913.
7. 12 District Banks.
8. To keep banks safe.
9. Seventh District.
10. 40%.
11. Analyze trends to determine where they think the economy is going.
12. 19 – Twelve Bank Presidents and seven Governors.
13. Short-term interest rates.
14. Answers could include interest rates on car loans, interest rates on savings accounts, business expansion in your neighborhood, etc.
15. Less borrowing will occur.
16. More borrowing will occur.
17. The banking system.
18. Confidence.
19. Supervision.
20. A bank's systems and records, types of loans, and fair lending.
21. Cash, check, and electronic payment.
22. Automated Clearing House.
23. Banker's bank.
24. Bureau of Engraving and Printing.
25. The Federal Reserve.
26. It is taken out of circulation.
27. The Federal Reserve.
28. Monetary Policy ("Growing the Economy"), Payment Services ("Making Payments Secure"), and Supervision & Regulation ("Keeping Banks Safe").

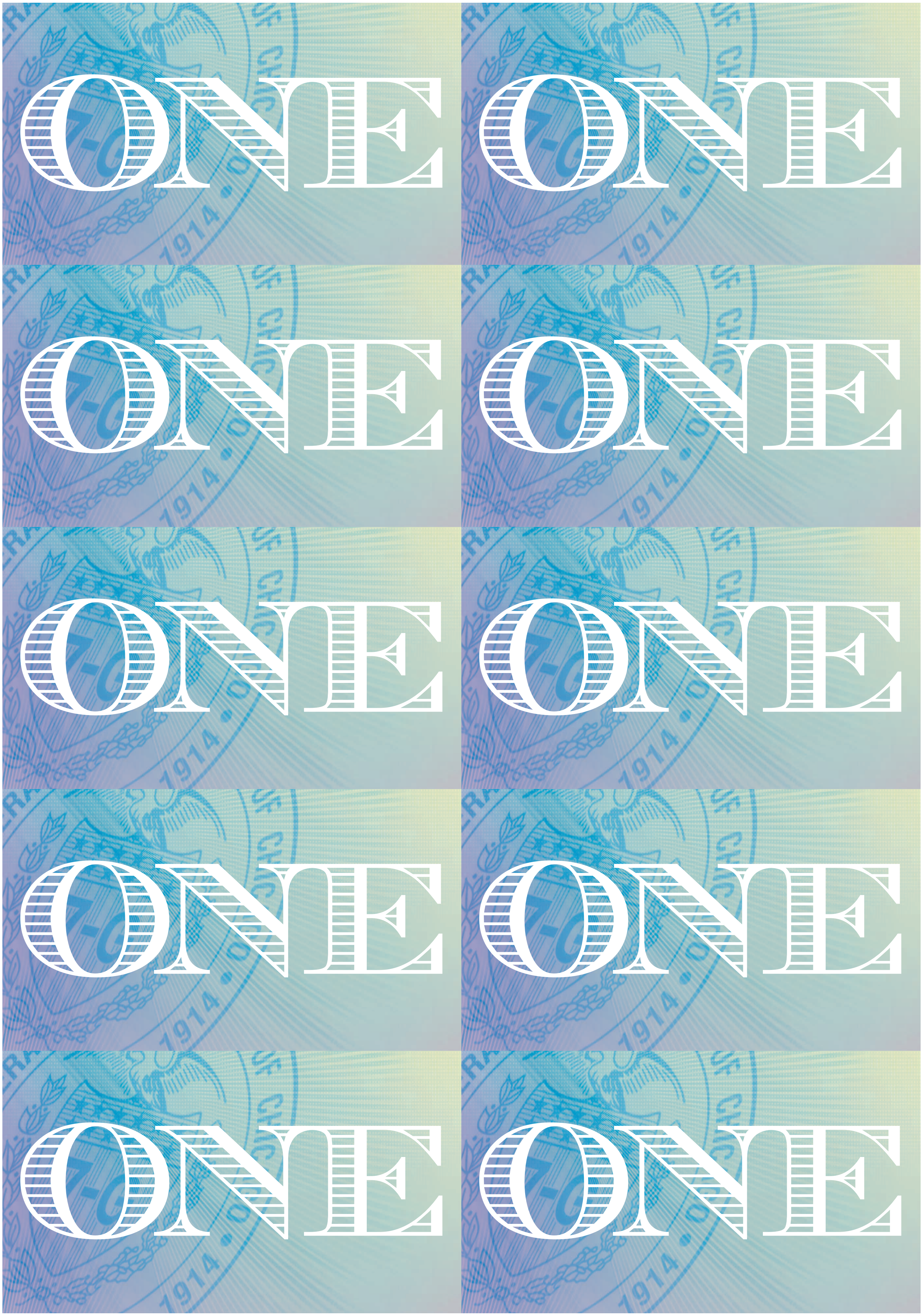
2. **Discuss the following:**
    a. Were you surprised by any fact you learned from the video?
    b. Now that you've seen the video, what might the Federal Reserve have done in our activity today?

Assessment Options

1. Ask the students to complete the following:
   Distribute one copy of the Activity 2 Multiple Choice assessment to each student for each to complete.

2. Ask students to complete the following:
   Distribute one copy of the Activity 3 Crossword Puzzle assessment to each student for each to complete.

3. Ask students to complete the following:
   Distribute one copy of the Activity 4 writing assessment to each student for each to complete.

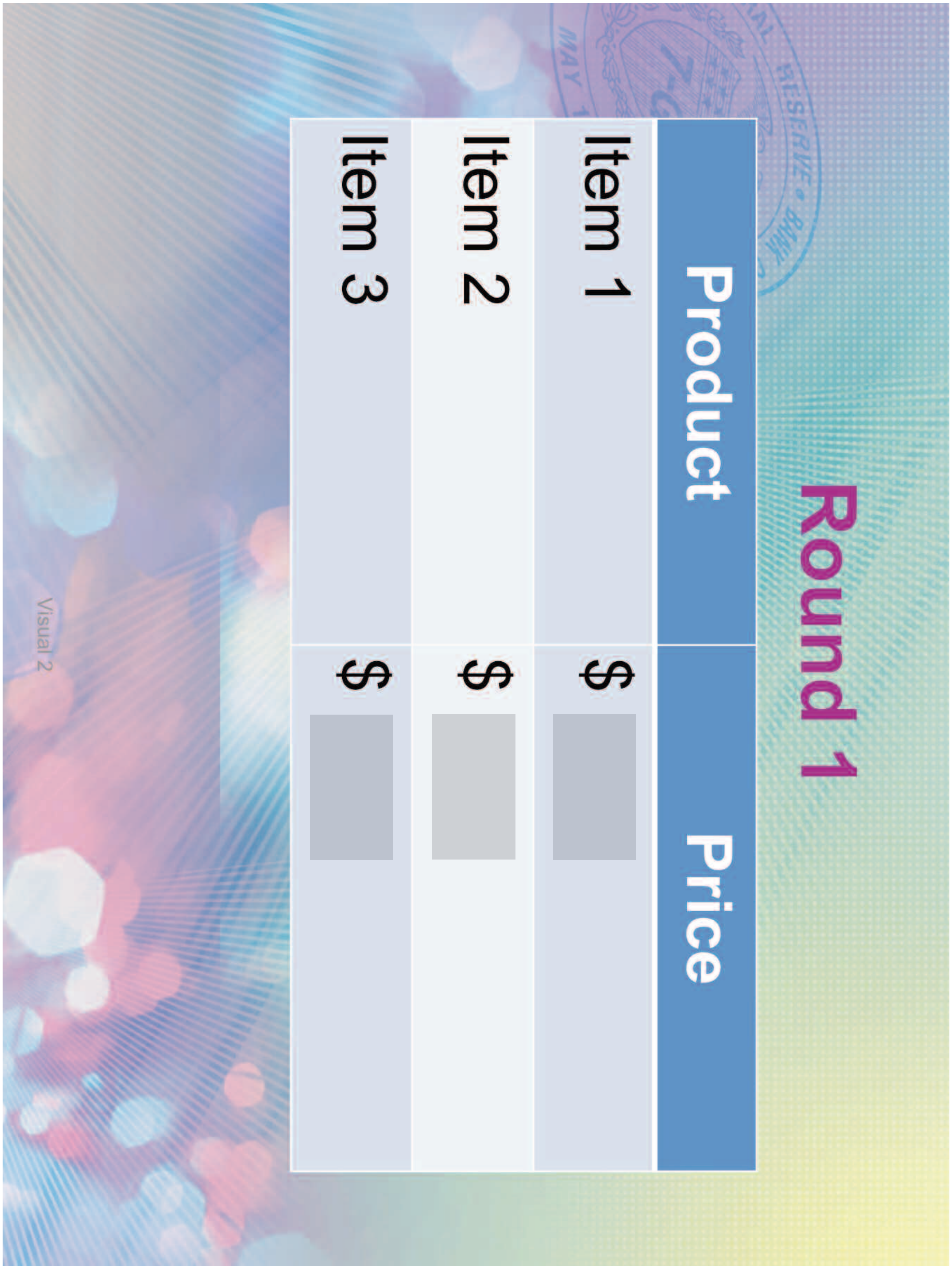


CURRENCY PIECE MASTER

VISUALS

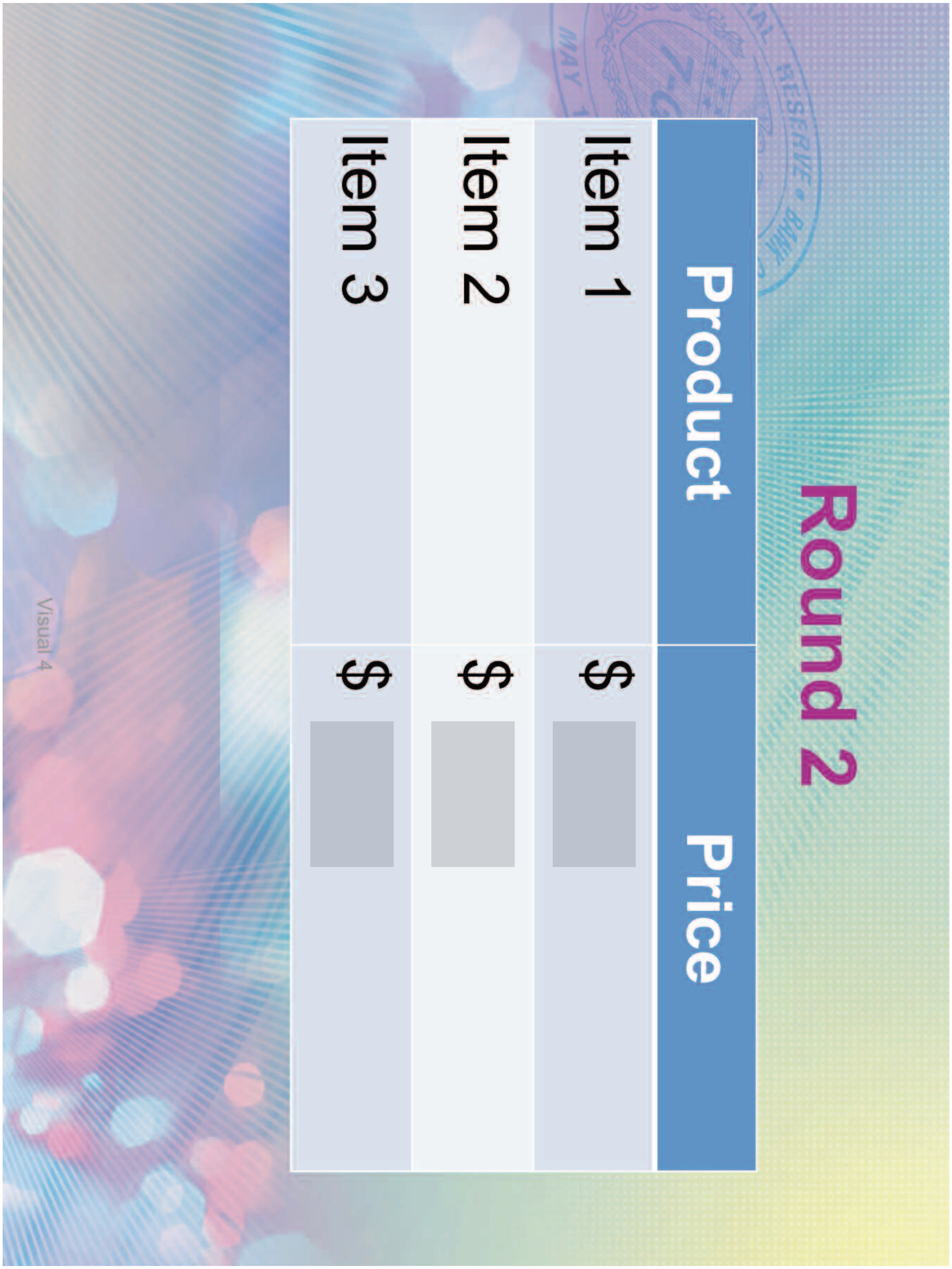
For your convenience, the enclosed CD-ROM features a powerpoint presentation with the visuals that are included on the following pages.

VISUAL 1



VISUAL 2

VISUAL 3



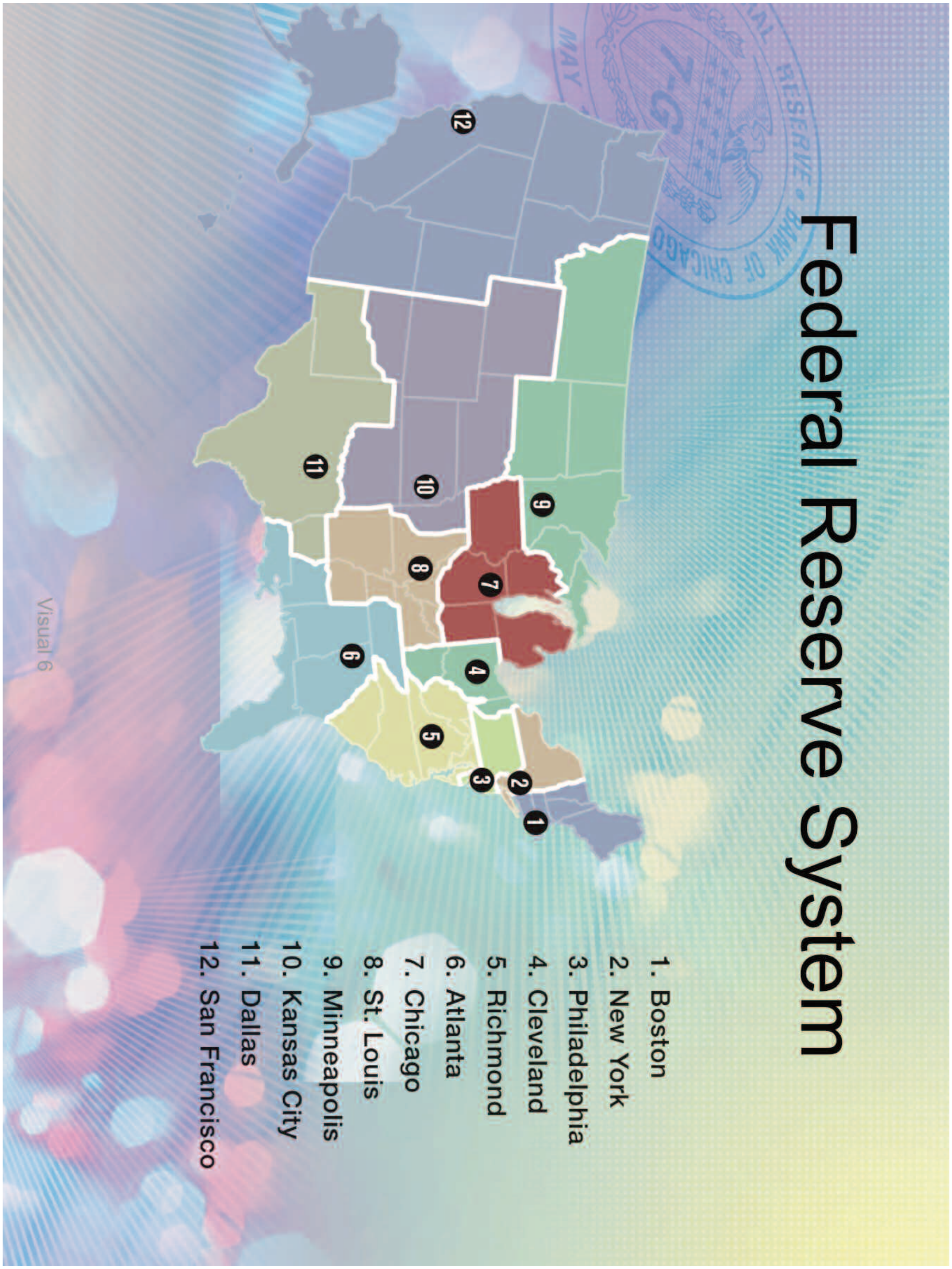
VISUAL 4

Compare

Product	Price Round 1	Price Round 2
Item 1	$	
Item 2	$	
Item 3	$	

Visual 5

VISUAL 5


Federal Reserve System
1. Boston
2. New York
3. Philadelphia
4. Cleveland
5. Richmond
6. Atlanta
7. Chicago
8. St. Louis
9. Minneapolis
10. Kansas City
11. Dallas
12. San Francisco
Visual 6

VISUAL 6

ACTIVITIES

ACTIVITY 1: Fill in the Blank

1. What is the largest economy in the world? ____________________

2. What makes a healthy economy? ____________________

3. What is the primary goal/function of the Federal Reserve? ____________________

4. Name two things that occurred in the economy before the Federal Reserve.

   a. ____________________ b. ____________________

5. Who signed the Federal Reserve Act into law? ____________________

6. When was the Federal Reserve Act signed? ____________________

7. How many District Banks were established? ____________________

8. Why does the Federal Reserve act as a financial regulator? ____________________

9. The Federal Reserve Bank of Chicago is in what District? ____________________

10. What percent of the nation's corn, soybeans, and hog production occurs in the District? ____________________

11. What do the Fed's research economists do? ____________________

12. How many members are on the Federal Open Market Committee (FOMC)? ____________________

13. In the video, this committee is voting on what to do with ____________________

14. Where will you likely see the result of a short-term interest-rate change by the Fed?

    ____

15. What will happen if the Committee votes to raise interest rates? ____________________

16. What will happen if the Committee votes to lower interest rates? ____________________

17. What is the backbone of the economy? ____________________

18. What must consumers have in a bank to deposit their money in it? ____________________

19. How does the Federal Reserve make sure that banks are protecting depositors' money?

____

20. List two things that bank examiners look for when assessing banks?

a. ____________________ b. ____________________

21. List three types of payments.

a. ____________________ b. ____________________ c. ____________________

22. What does ACH stand for? ____________________

23. When banks have excess vault cash and deposit it in their account at the Federal Reserve Bank in their District, the Fed is acting as a ____________________

24. What agency prints currency? ____________________

25. What agency distributes the currency? ____________________

26. What happens to worn or counterfeit currency? ____________________

27. What/who is responsible for making the U.S. system of payments secure? ____________________

28. What are the three major roles of the Fed?

a. ____________________ b. ____________________ c. ____________________

ACTIVITY 2: Multiple Choice Assessment

1. **Currently, the world's largest economy is**
   a. India
   b. China
   c. United States
   d. Japan

2. **A system for making stuff and distributing it is called a/an**
   a. Corporation
   b. Economy
   c. Exporter
   d. Assembly line

3. **Which of the following is NOT a goal of the Federal Reserve?**
   a. Growing the economy
   b. Keeping banks safe
   c. Printing currency
   d. Making payments secure

4. **A run on a bank occurs because**
   a. Depositors fear that their bank will close.
   b. Bankers have secretly stolen funds from the bank.
   c. A bank has not been allowed to open a branch that would serve more depositors.
   d. A bank has too much cash in its vault, prompting a fear the bank might be robbed.

5. **Which president signed the Federal Reserve Act into law?**
   a. Herbert Hoover
   b. Warren G. Harding
   c. Theodore Roosevelt
   d. Woodrow Wilson

6. **In what year was the Federal Reserve Act signed into law?**
   a. 1909
   b. 1913
   c. 1917
   d. 1921

7. **How many Federal Reserve Banks were established by the Federal Reserve Act?**
   a. 10
   b. 12
   c. 14
   d. 16

8. **What tool does the Federal Reserve use to influence economic growth?**
   a. Monetary policy
   b. Fiscal policy
   c. Demand and supply
   d. Usury laws

9. **The Chicago Federal Reserve Bank is in what District?**
   a. 5th
   b. 7th
   c. 8th
   d. 10th

10. **What percent of the nation's corn, soybeans, and hog production comes from the Chicago Federal Reserve's District?**
   a. 10%
   b. 20%
   c. 30%
   d. 40%

11. **Research economists employed by the Federal Reserve analyze information to try to determine**
   a. What factors contributed most to the Great Depression.
   b. Which political party will be in office after the next national election.
   c. Where they think the economy is going.
   d. How to design U.S. currency to avoid counterfeiting.

12. **When the Chicago Federal Reserve president travels to Washington, D.C., how many people will be in attendance?**
   a. The 7 Board of Governors
   b. The 12 District Presidents
   c. Both a and b
   d. The entire House of Representatives

13. **During the meeting in Washington D.C. that was mentioned in the video, on what were the members voting?**
   a. What to do with the short-term interest rate.
   b. What to do with fiscal policy.
   c. How much depositor's money to insure.
   d. Which member banks to audit.

14. **Interest rate changes by the FOMC will NOT be seen in**
   a. Deposits in savings accounts
   b. Car loans
   c. Home mortgages
   d. FDIC deposit limits

15. **One of the goals of monetary policy is to avoid**
    a. Bank failures.
    b. Having to use Fiscal Policy.
    c. Booms and busts in the economy.
    d. Foreclosures in the housing industry.

16. **If the Fed chooses to lower interest rates, they can assume that**
    a. More people with bad credit scores can get a loan.
    b. More borrowing will take place.
    c. The Federal government's debt will fall.
    d. Eventually prices in the economy will increase.

17. **According to the video, the goal of the Federal Reserve in supervising banks is to make sure that banks are**
    a. Not loaning money to other banks in their district.
    b. Not loaning money to corporations internationally.
    c. Keeping all their depositors' money in their vault.
    d. Protecting depositors' money.

18. **If people didn't have confidence in our banking system and chose not to put their savings in banks, activity in the economy**
    a. Would be less.
    b. Would have to be conducted totally in cash.
    c. Would not be able to rely on our market system.
    d. Would become cashless.

19. **When Fed bank examiners visit banks, they check to make certain that**
    a. Prudent and sound loans are being made.
    b. Money is being lent fairly.
    c. Interest rates being charged are not too low.
    d. Both a and b
    e. All of the above

20. **Which of the following would not be considered a method of payment?**
    a. An IOU
    b. Cash
    c. A check
    d. An electronic transfer of funds

21. **The Fed's Automated Clearing House deals primarily with**
    a. Checks
    b. Direct Deposit
    c. Coins and paper currency
    d. Loans to individual banks

22. **One reason the Fed is known as the Banker's Bank is because**
    a. It supervises member banks.
    b. Fed Banks provide personnel to member banks in their districts.
    c. All banks must have an account at their District Fed Bank.
    d. All banks must send their daily deposits to their District Fed Bank.

23. **What government entity is responsible for printing U.S. currency?**
    a. The Federal Reserve Bank of New York
    b. The Bureau of Engraving and Printing
    c. The Denver Mint
    d. The Department of Commerce

24. **Counterfeit currency will be taken out of circulation by**
    a. The F.B.I.
    b. The C.I.A.
    c. The Fed
    d. The D.E.A.

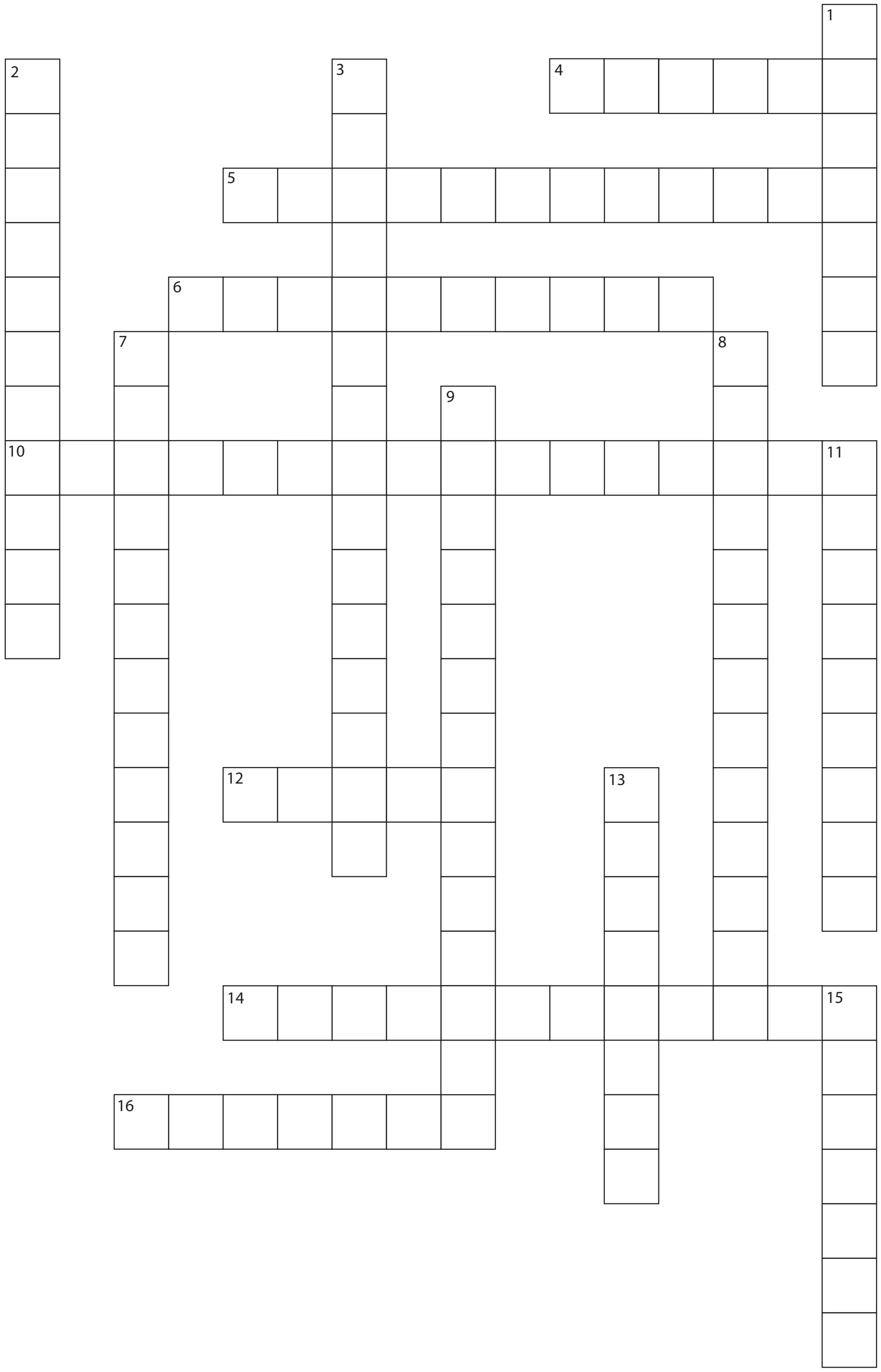
25. **If a commercial bank has a surplus of vault cash it can**
    a. Send it to neighboring commercial banks for security.
    b. Use all its vault cash to make loans.
    c. Deposit it in its account at its Fed Bank.
    d. Pay dividends to its owners.

26. **According to the video, what is the backbone of our economy?**
    a. Competition
    b. Our system of laws
    c. The American worker
    d. Our banking system

27. **Over the past 20 years, methods of paying for things**
    a. Have stayed rather constant.
    b. Cannot be determined without more research by economists.
    c. Continue to be primarily with cash.
    d. Changed dramatically.

28. **The government entity that distributes new currency to the economy is**
    a. The Federal Reserve
    b. The Bureau of Engraving and Printing
    c. The Board of Governors
    d. Congress

ACTIVITY 3: Crossword Puzzle



ACROSS

4 The total number of Federal Reserve District banks
5 The cost of borrowing money
6 An attempt to get your money out before a bank closed
10 Policy makers of the Fed
12 Is used as a medium of exchange
14 Home to the Board of Governors
16 A system for making and distributing stuff

DOWN

1 The district that the Chicago bank is in
2 The Federal Reserve is one
3 Cash, check, or electronic payment
7 One of the goals of the Fed
8 The president that signed the Federal Reserve Act
9 What the Fed uses to grow the economy
11 What the Feds do to commercial banks
13 The year the Federal Reserve Act was signed, 19__
15 The Fed’s 7th District bank

ACTIVITY 4: Short Answer

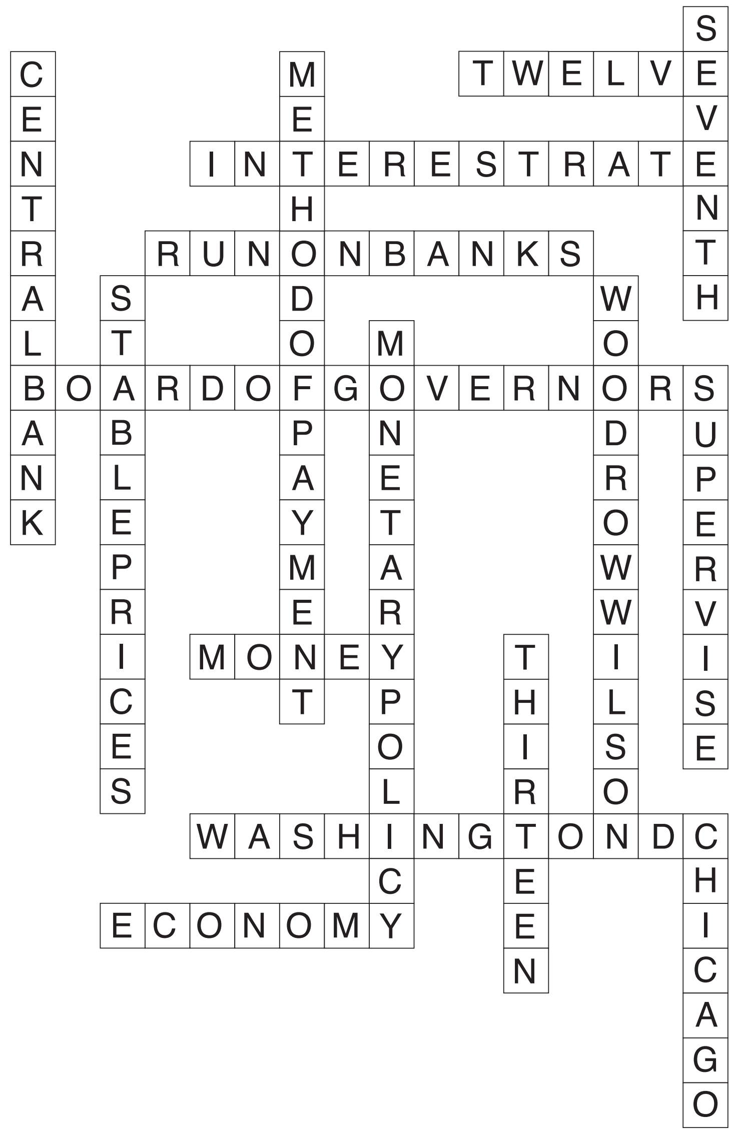
1. Search you local newspaper or newspaper website for the topic The Federal Reserve. Choose a recent article and write 2-3 paragraphs about the Fed role or responsibility you think it is discussing. Attach the article (with the website address, if applicable, to this page.)

2. What do you think the future holds for new methods of payments in the United States? What would you recommend the Federal Reserve do to ensure that these new methods are safe? Discuss.

ACTIVITY 2: Answers

1. C
2. B
3. C
4. A
5. D
6. B
7. B
8. A
9. B
10. D
11. C
12. C
13. A
14. D
15. C
16. B
17. D
18. A
19. D
20. A
21. B
22. C
23. B
24. C
25. C
26. D
27. D
28. A

ACTIVITY 3: Answers



ACTIVITY 1: Answers on Page 6

NOTES

NOTES

www.chicagofed.org

FEDERAL RESERVE BANK
OF CHICAGO