

Introduction

In the near future, you and your students will be visiting FedWorks: Money, Banking, and the Federal Reserve System, an exhibition created by the Federal Reserve Bank of New York. FedWorks is intended to promote economic literacy and greater understanding of the Federal Reserve. The exhibition's interactive, multimedia, and museum-quality displays will help your students develop greater awareness of:

- *the role of the Federal Reserve ("the Fed") in formulating and implementing U.S. monetary policy;*
- *how the Fed attempts to control inflation and economic growth through its influence over the nation's money supply and credit;*
- *how the Fed promotes safety and soundness in the banking system through its supervisory and regulatory activities; and*
- *the Fed's roles in international and domestic payments systems; the economic interdependence among consumers, business, governments in the United States, and the rest of the world.*



OVERVIEW OF THE TEACHER'S GUIDE

This guide is divided into six sections.

SECTION I: INTRODUCTION

This section contains the rationale for the creation of FedWorks and lists several learning objectives. It also provides an overview of the six sections of the Teacher's Guide, a plan for an instructional unit about the Federal Reserve using your visit to FedWorks as the anchor, a description of how to use the guide in lesson planning, and a map of FedWorks.

SECTION II: BACKGROUND INFORMATION FOR TEACHERS

This section provides teachers with a brief description of the Federal Reserve and the major exhibits at FedWorks.

SECTION III: PRE-VISIT INSTRUCTIONAL STRATEGIES

This activity prepares students for their trip to the New York Fed (another name for the Federal Reserve Bank of New York) and should be assigned *at least two weeks* prior to visiting FedWorks.

SECTION IV: ASSIGNMENT TO BE COMPLETED AT FEDWORKS

Students, working in groups at FedWorks, will each study two different exhibits, recording their findings on the worksheets provided. For homework, students will write a critical review of the FedWorks exhibition.

SECTION V: DEBRIEFING THE VISIT

This section provides an approach for debriefing the class about FedWorks. Among other activities, students will play FedWorks Jeopardy based on the information found at the exhibition.

SECTION VI: INSTRUCTIONAL MATERIALS FOR TEACHING AN EXTENDED UNIT ON THE FEDERAL RESERVE

This section is provided for those teachers who wish to focus on the Federal Reserve in greater depth. Resources are included for use in four additional lessons dealing with the following topics:

- historical roots of the Fed;
- overview of the Federal Reserve System;
- making monetary policy; and
- the Fed as a bank regulator and supervisor, and as a provider of payment services.

PLANNING AN INSTRUCTIONAL UNIT ON THE FED BASED ON THE VISIT TO FEDWORKS

Teachers should consider using class visits to FedWorks as the focal point for a teaching unit about the Fed. A suggested sequence appears below, along with a reference to where in this guide teachers will find materials for implementing each activity.



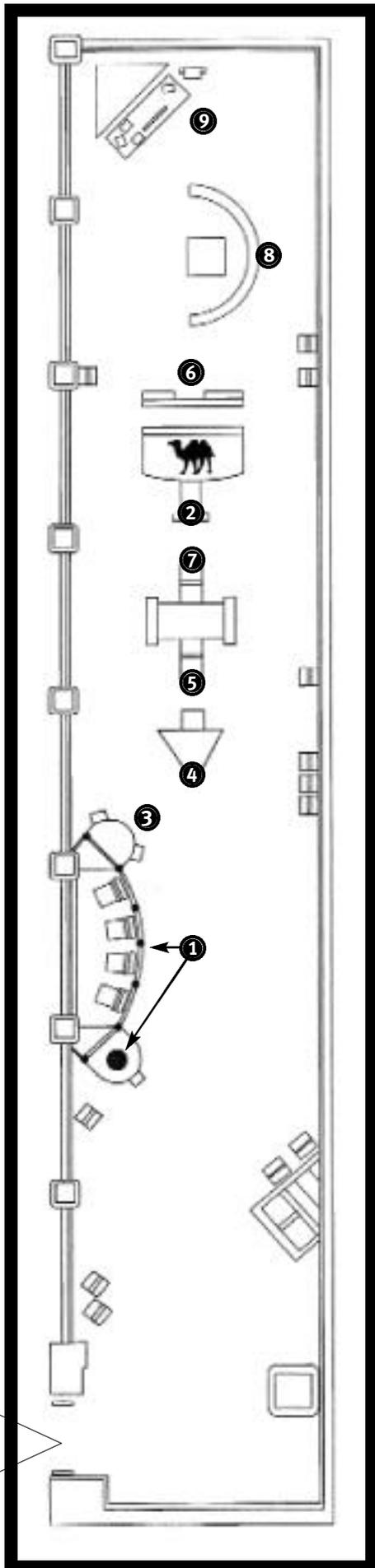
TEACHING SEQUENCE	ACTIVITY	SECTION IN WHICH INSTRUCTIONAL MATERIALS MAY BE FOUND
1. Two weeks prior to the visit to FedWorks	<ul style="list-style-type: none"> • Students in groups research topics related to the FedWorks exhibition and design exhibits based on the topic 	III
2. One or two school days prior to the visit to FedWorks	<ul style="list-style-type: none"> • Students present their proposed exhibit designs • Teacher explains assignments that student groups must complete at the FedWorks and distributes appropriate handout sheets 	III IV
3. On the day of the visit to FedWorks	<ul style="list-style-type: none"> • Student groups complete assignment at the exhibition • Teacher distributes materials for students to write a critical review of FedWorks exhibit for homework 	IV V
4. On the first and second school days after the visit to FedWorks	<ul style="list-style-type: none"> • Students discuss FedWorks exhibits and what they learned about the Fed from the visit • Students present their review of FedWorks • Students play FedWorks Jeopardy 	V
5. During class periods subsequent to the previous activity	<ul style="list-style-type: none"> • Lesson: Historical Roots of the Fed • Lesson: Overview of the Federal Reserve System • Lesson: Making Monetary Policy (a simulation) • Lesson: Participating in the Payments System • Lesson: Supervisory and Regulatory Responsibilities 	VI

**LESSON PLANNING FEATURES USED IN THE
TEACHER'S GUIDE**

While this guide does not provide complete lesson plans, Sections III, V, and VI employ the following features, which can form the basis for lessons:

- teaching strategy sheets, including:
 - a topic for instruction
 - performance objectives: describing, in behavioral terms, desired instructional outcomes for students
 - development: suggested instructional approaches and questions for whole-class discussion keyed to student handout sheets
- student handout sheets, including:
 - readings from primary sources
 - charts and tables
 - exercises to promote writing, document-based analysis, critical thinking, and decision-making skills
 - a simulation





MAP OF THE EXHIBITION

The map to the left is included to help teachers and students better plan their visit to FedWorks.

- ① Making Monetary Policy / Can You Keep the Economy on a Stable Course?
- ② Rating the Bank
- ③ Multimedia Presentation on Money and the Federal Reserve
- ④ The Fed Shred
- ⑤ Digital Dollars
- ⑥ Close-up on Counterfeits
- ⑦ The Economic Circle
- ⑧ The Multiplier Effect
- ⑨ Check out the Economy

ENTRANCE

Background Information for Teachers

THE FEDERAL RESERVE

The Federal Reserve, often referred to as “the Fed,” was created as our nation’s central bank by Congress in 1913 for the purpose of providing for an elastic currency, discounting commercial paper, and supervising banks. These original goals have expanded, to include promoting:

- stable prices,
- economic growth, and
- full employment.

Structure. In order to carry out its far-reaching economic objectives, the Federal Reserve has been structured to meet both national and regional needs, combining an unusual mixture of public and private elements and centralized and decentralized components. At the head of the Federal Reserve System is the Board of Governors, located in Washington, D.C. The 12 regional Federal Reserve Banks — which are legally private, but functionally public, corporations — make up the next level. By statute, the organization of the System also includes the Federal Open Market Committee (FOMC), the Fed’s most important monetary policy setting group. The Board of Governors, Reserve Banks, and the FOMC each has unique responsibilities.

Board of Governors. The Federal Reserve System functions under the leadership of the Board of Governors, with headquarters in Washington, D.C. The seven members of the Board of Governors are appointed by the President and confirmed by the Senate for 14-year terms. The Chairman and Vice Chairman of the Board are appointed by the President (and confirmed by the Senate) for four-year terms. The Board has general supervisory responsibility over the Federal Reserve System, helping coordinate the activities of the 12 Reserve Banks.

Reserve Banks. The United States is divided into 12 Federal Reserve Districts. Most Districts are served by a Reserve Bank and its Branches. The Federal Reserve Bank of Boston and Philadelphia are the only Reserve Banks without at least one Branch. The Districts range widely in size from Philadelphia, the smallest, to San Francisco, the largest. A map of the Federal Reserve Districts, their Reserve Banks, and Branches appears in Section VI of this guide.



The Federal Open Market Committee. The committee is made up of the seven members of the Board of Governors plus the presidents of the 12 Reserve Banks, five of whom vote on monetary policy, along with the seven governors, at FOMC meetings. Since open market operations are conducted only at the New York Fed, the President of the New York Fed is always a voting member, and traditionally, the Vice Chairman of the FOMC. The other 11 Reserve Bank presidents take turns serving as voting members of the FOMC, although all of them attend the meetings to participate in policy-making discussions and provide the committee with information about economic conditions in their Districts.

BACKGROUND INFORMATION RELATED TO THE EXHIBITS



1. MAKING MONETARY POLICY / CAN YOU KEEP THE ECONOMY ON A STABLE COURSE?:

These are two related exhibits in the same area. *Making Monetary Policy* allows as many as four visitors at a time to participate in a computer simulation in which each person plays the role of the Chairman of the Federal

Reserve, who must make monetary policy decisions after being confronted with different economic scenarios presented in newspaper headlines. *Can You Keep the Economy on a Stable Course?*, a computer activity located on a free-standing kiosk, gives participants the opportunity to decide how the Fed could best fight inflation or promote economic growth by increasing or decreasing the supply of money and credit.

2. RATING THE BANK: Via a word game and question and answer format presented on a computer terminal, visitors learn about the criteria used by Federal Reserve examiners to evaluate depository institutions and about the Fed's supervisory functions.



3. MULTIMEDIA PRESENTATION ON MONEY AND THE FEDERAL RESERVE: This kiosk contains a computer terminal through which students will be asked to access brief narrated videos about the history of money, the way currency is designed and produced, and the Federal Reserve's role in processing, storing, and distributing currency.



4. THE FED SHRED: A tall, transparent pyramid filled with approximately \$50 million worth of shredded currency.



5. DIGITAL DOLLARS: A large display indicates the total dollar value of funds and securities transferred each day via Fedwire, the Federal Reserve's electronic payments network, and the amount of funds and securities transferred during the time the guest is present at the exhibit. Also, visitors have the opportunity to learn about the different forms of payment (e.g., cash, check, and electronic) portrayed by cartoon-like representations on the display. Visitors can listen to a skit involving characters representing the different forms of payment. In the process, they learn about the advantages and disadvantages of the various payment systems.



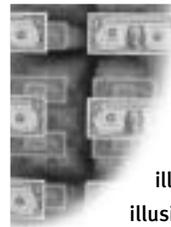
6. CLOSE-UP ON COUNTERFEITS: Counterfeit and authentic currency displayed side-by-side on a large board may be compared with the aid of two large magnifying glasses. A description of some ways to detect counterfeits is provided along with a discussion of the anti-counterfeiting features contained in the new \$100 bill.



7. THE ECONOMIC CIRCLE: A lighted chart of the Circular Flow of Economic Activity illustrates the interaction between the household, business, government and foreign sectors of the economy, by showing flows of goods and services as well as financial flows and payments. Guests may access additional information about each sector by selecting a button on a convenient display.



8. THE MULTIPLIER EFFECT: An exhibit that on one side provides a description and example of the money multiplier, through which a bank deposit can result in an increase in money several times larger. The other side of the exhibit illustrates the concept of the multiplier by creating an illusion using a display of dollar bills and mirrors.



9. CHECK OUT THE ECONOMY: Information about each of 12 economic indicators is provided along with a chart of actual recent data. A description of individual indicators may be accessed by using a touch screen that activates a brief video program about each.



Pre-Visit Instructional Strategy

TOPIC: WHAT IS FEDWORKS?

OBJECTIVES

Students will be able to:

- identify economic concepts highlighted in FedWorks exhibition (e.g., circular flow of economic activity, multiplier effect, and monetary policy lags);
- discuss the major responsibilities of the Federal Reserve; and
- design an imaginary exhibition highlighting basic economic concepts and the responsibilities of the Federal Reserve.

DEVELOPMENT

Students will need approximately two weeks preparation time to complete the activity below.

■ Distribute Student Pre-Visit Handouts #1 and #2. Review with students the instructions for the special project. Divide the class into nine groups of approximately four students each. Each group should be designated by a different one of the following letters: A, B, C, D, E, F, G, H, and I. (Students will also receive assignments at FedWorks based on these groupings.) Have the groups research the topics assigned to them on Student Pre-Visit Handout #1. Explain to the groups that you will allow them sufficient time (two weeks) to complete their research and develop their exhibit plan as described on Student Pre-Visit Handout #2. Tell students that a day or two prior to their visit to the New York Fed each group will present their exhibit plan to the class.



■ On the day the exhibit plans are presented, allow each group approximately two to three minutes to make its presentation. Then, as part of a whole-class discussion, ask students to explain their answers to the following questions:

- How can you explain why institutions like the New York Fed would create an exhibit such as the one we are going to see?
- What ideas about the Fed and the economy did you learn from these presentations?
- From which of these exhibits, other than your own, did you learn the most?
- Which of these exhibits, other than your own, did you find the most creative?

SUMMARY

Which of these exhibits, other than your own, would you recommend the New York Fed include in its exhibition?

“SPECIAL PROJECT”

IN THE NEAR FUTURE,

our class will be visiting the Federal Reserve Bank of New York (FRBNY). While at the Bank, we will take a tour of the gold vault, listen to a presentation and visit FedWorks, an exhibition that has been created to help us learn more about economics and the role of the Federal Reserve, our nation’s central bank.

PRIOR TO THE CLASS TRIP,

we will undertake a special project that will prepare us to better appreciate our visit. For the project, it is necessary to assume that we were given the task of designing FedWorks. When we visit the New York Fed, we will compare the exhibition we designed to the actual exhibition.

FOR THIS ACTIVITY,

the class will be divided into groups designated by the letters A, B, C, D, E, F, G, H, and I. (Students will form these groups again at FedWorks to complete an assignment there.) Groups will have the task of finding as much information as possible about the topic assigned to them.

Group Topic

A	THE ROLE OF THE FED IN MAKING MONETARY POLICY
B	THE FEDERAL RESERVE: A PROVIDER OF PAYMENTS SERVICES (E.G., CHECK-PROCESSING, ELECTRONIC PAYMENTS)
C	THE MULTIPLIER EFFECT
D	THE CIRCULAR FLOW OF ECONOMIC ACTIVITY
E	PROTECTING THE SAFETY OF OUR CURRENCY BY FIGHTING COUNTERFEITERS
F	THE ROLE OF THE FED AS A SUPERVISOR AND REGULATOR OF BANKS
G	THE HISTORY OF MONEY AND THE FEDERAL RESERVE SYSTEM
H	ECONOMIC INDICATORS: WHICH ONES BEST MEASURE THE HEALTH OF THE ECONOMY?
I	THE ROLE OF THE FED AS A BANK FOR BANKERS

INFORMATION ABOUT THESE TOPICS CAN BE OBTAINED FROM A VARIETY OF SOURCES, INCLUDING:

- ▶ NEWSPAPER ARTICLES
- ▶ LIBRARY BOOKS
- ▶ THE FRBNY’S WEB SITE:
www.ny.frb.org/
AND OTHER INTERNET SITES
- ▶ FEDERAL RESERVE PUBLICATIONS

“EXHIBITION DESIGN PLAN”

Based on your research, you will develop a plan for an interactive exhibit or display that you believe will help visitors learn about the topic your group was assigned.

Your exhibit design plan (including any artwork) should be placed in the space provided at right.

TOPIC ASSIGNED TO GROUP:

TITLE OF EXHIBIT:

What two important ideas will visitors learn about the topic from your exhibit?

Description of the exhibit: What does it look like? (A drawing or other representation may be included.) How does the exhibit work? (Does it employ a computer terminal, a telephone? Is it expected that visitors must do something to make the exhibit operate, such as touch a computer screen or turn a knob?)

Assignment to Be Completed at FedWorks

TOPIC: VISIT TO FEDWORKS

OBJECTIVES

Students will be able to:

- prepare a report about specific FedWorks exhibits to which they were assigned,
- gather facts from specific information panels located at the exhibition, and
- write a critical review of FedWorks exhibition.

DEVELOPMENT

Distribute *one copy* of *Student Visit Handouts #1-5* and *6* per group, to groups A-J (see Section III of this guide) according to the list below. Have groups follow the instructions on the handouts.

GROUP	STUDENT VISIT HANDOUT #
A	1 & 6
B	2 & 6
C	2 & 6
D	3 & 6
E	3 & 6
F	4A + 4B & 6
G	4A + 4B & 6
H	5 & 6
I	6 & 7

Before students leave the exhibition, distribute *Student Visit Handout #7* to each student. Have students complete the activity described in this handout for the next class session.



This handout pertains to
two exhibits:

***Can You Keep the Economy on a
Stable Course?*** and
Making Monetary Policy

Prepare a report on the exhibits identified above,
following the directions provided. If necessary,
continue on the back of this page.

**EXHIBIT TITLE: CAN YOU KEEP THE ECONOMY
ON A STABLE COURSE?**



Description of the exhibit: What does it look like?
What action, if any, takes place? What must one do,
if anything, to operate the exhibit — e.g., touch a
screen, press a button, pick up a telephone receiver?
What did you learn from this exhibit about
the economy, money, banking, and/or the
Federal Reserve?
The Fed acts as the nation’s monetary pilot, seeing
to it that the supply of money and credit changes
according to conditions in the economy. Tell why
you agree or disagree with the proposal to take
away the Fed’s power to act as the “monetary pilot”
and, instead, let the supply of money and credit
grow at a constant rate.



EXHIBIT TITLE: MAKING MONETARY POLICY



Description of the exhibit: What does it look like?
What action, if any, takes place? What must one do,
if anything, to operate the exhibit — e.g., touch a
screen, press a button, pick up a telephone receiver?
What did you learn from this exhibit about
the economy, money, banking, and/or the
Federal Reserve?
Do you think the Fed’s monetary policy should
focus most on preventing inflation over the long
run, promoting high levels of unemployment over
the short run, or on both equally? Why?

This handout pertains to two exhibits:
Digital Dollars and the **Multiplier Effect**

Prepare a report on the exhibits identified below, following the directions provided.

EXHIBIT TITLE: DIGITAL DOLLARS

Description of the exhibit: What does it look like?
What action, if any, takes place?

What must one do, if anything, to operate the exhibit — e.g., touch a screen, press a button, pick up a telephone receiver?

What did you learn from this exhibit about the economy, money, banking, and/or the Federal Reserve?

Write two stories, one in which you describe how things would be different if the nation moved to a system in which all payments were made electronically and we did away with paper and coin, cash, and checks. Then, write another story about how things would be different if all payments could be made only in cash.



EXHIBIT TITLE: MULTIPLIER EFFECT

Description of the exhibit: What does it look like?
What action, if any, takes place?

What must one do, if anything, to operate the exhibit — e.g., touch a screen, press a button, pick up a telephone receiver?

What did you learn from this exhibit about the economy, money, banking, and/or the Federal Reserve?

Using the concept of the multiplier, write a newspaper article to accompany the following headline, “RESERVE REQUIREMENTS SIGNIFICANTLY INCREASED; ALL AMERICANS TO FEEL EFFECTS”

This handout pertains to two exhibits:

Close-up on Counterfeits and the
Economic Circle

Prepare a report on the exhibits identified below,
following the directions provided. If necessary
continue on the back of this page.

EXHIBIT TITLE: CLOSE UP ON COUNTERFEITS

Description of the exhibit: What does it look like?

What action, if any, takes place? What must one do,
if anything, to operate the exhibit — e.g., touch a
screen, press a button, pick up a telephone receiver?

What did you learn from this exhibit about
the economy, money, banking, and/or the
Federal Reserve?

Write an outline for a five-minute talk that your
group will give to the class on the following topic:
“Fighting Counterfeiters Through New Designs in
Currency and Better Detection.”



EXHIBIT TITLE: ECONOMIC CIRCLE

Description of the exhibit: What does it look like?

What action, if any, takes place? What must one do,
if anything, to operate the exhibit — e.g., touch a
screen, press a button, pick up a telephone receiver?

What did you learn from this exhibit about
the economy, money, banking, and/or the
Federal Reserve?

Increasingly, the foreign sector is playing a greater
role in the “Economic Circle.” Bring to class three
newspaper articles that support this statement.
Describe three effects that the trend toward greater
global economic interdependence will have on
people residing in this country in the 21st century.

This handout pertains to the exhibit:

The Rating Game

Prepare a report on the exhibits identified below,
following the directions provided. If necessary
continue on the back of this page.

EXHIBIT TITLE: THE RATING GAME

See special operating instructions below.

Description of the exhibit: What does it look like?

What action, if any, takes place? What must one do, if anything,
to operate the exhibit — e.g., touch a screen, press a button,
pick up a telephone receiver?

What did you learn from this exhibit about the economy, money,
banking, and/or the Federal Reserve?

If you were rating a bank for its safety and soundness, what
would be your most important criteria? Visit a bank in your
local community and design three criteria for rating a bank from
a customer's perspective.



**SPECIAL OPERATING INSTRUCTIONS
FOR RATING THE BANK**

1. This exhibit consists of two parts:
 - a word game related to CAMELS, the criteria that examiners use for rating banks; and
 - an interactive exercise in which you can find the answers to six questions about the Fed's supervisory and regulatory responsibilities.
2. First play the CAMELS word game. After playing the game, your name and score will be recorded.
3. Then a screen will appear with the words, "Touch a Question to Learn the Answer." As a group, decide upon two of the six questions to which you would like to know the answers. After learning the answers to these questions, touch "End Turn" in the lower left corner. You have completed this activity.

This handout pertains to the exhibit:
***Multimedia Presentation on Money
 and the Federal Reserve***

Prepare a report on the exhibits identified below,
 following the directions provided. If necessary
 continue on the back of this page.

**EXHIBIT TITLE: MULTIMEDIA PRESENTATION ON
 MONEY AND THE FEDERAL RESERVE**

See special operating instructions below.

Description of the exhibit: What does it look like?

What action, if any, takes place? What must one do, if anything,
 to operate the exhibit — e.g., touch a screen, press a button,
 pick up a telephone receiver?

What did you learn from this exhibit about the economy,
 money, banking, and/or the Federal Reserve?

Prior to the introduction of money, people traded for the goods
 and services they wanted or needed. This method of doing
 business is called *barter*. Write a short story about how things
 would be different today if we still had a barter system.



**SPECIAL OPERATING INSTRUCTIONS FOR
 MULTIMEDIA PRESENTATION ON MONEY AND THE FEDERAL RESERVE.**

1. On the “Federal Reserve Bank of New York” title screen, touch the bill as instructed.
2. On the next touch screen, touch the button labeled “Missions of the Bank.”
3. On the “Missions of the Bank” screen touch “Payments Systems.”
4. On the next screen touch “Money and the Fed” and listen to the narrator’s presentation.
5. Then touch “Money in Colonial America” on the screen and listen to the presentation.
6. After the presentation, touch the green likeness of a bill with a face, located at the bottom of the screen.
7. Touch the screen on the button labeled “Processing of Money.”
8. After the presentation, touch as many of the highlights as you wish.
9. Again, touch the green likeness of a bill with a face.
10. Touch the screen on the button labeled “Making of Money.”
11. After the presentation, touch as many buttons as you wish to learn more about subjects that interest you.
12. Now you have completed this activity.

This handout pertains to two exhibits:

Check Out the Economy and
The Fed Shred

Prepare a report on the exhibits identified below,
following the directions provided. If necessary
continue on the back of this page.

EXHIBIT TITLE: CHECK OUT THE ECONOMY

Description of the exhibit: What does it look like?

What action, if any, takes place? What must one do, if anything, to operate the exhibit — e.g., touch a screen, press a button, pick up a telephone receiver.

What did you learn from this exhibit about the economy, money, banking, and/or the Federal Reserve?

Discuss the two indicators in this exhibit that you believe provide the best evidence of how well the economy is performing. Why do you think Federal Reserve economists track dozens of indicators rather than just a few?



EXHIBIT TITLE: THE FED SHRED

Description of the exhibit: What does it look like?

What action, if any, takes place? What must one do, if anything, to operate the exhibit — e.g., touch a screen, press a button, pick up a telephone receiver.

What did you learn from this exhibit about the economy, money, banking, and/or the Federal Reserve?

Some people have suggested that we replace paper money, which wears out quickly, with coins. What effect would this have on our lives? Survey at least 30 other people (include people of different age groups). Ask them the same question: “Would you prefer that we replace all paper money with coins?” How about entirely replacing currency with electronic forms of money? Ask those questioned to explain the reasons for their answer. Be prepared to report your findings to the class.

Located on floor stands along both sides of FedWorks are information panels dealing with different topics related to the Federal Reserve, the economy, and money. In the appropriate space below, list five interesting facts you found in the information panel assigned to your group. Some of these facts will appear in FedWorks Jeopardy, a game you will play during a future class.

<p>GROUP A: GOLD NOTES AND COINS</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶ 	<p>GROUP F: HATS OF THE FED</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶
<p>GROUP B: THE INFLATION MENACE</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶ 	<p>GROUP G: THE TRAVELING CHECK</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶
<p>GROUP C: ROAD TO THE PRESENT DAY FED</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶ 	<p>GROUP H: ANATOMY OF A BILL</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶
<p>GROUP D: STRUCTURE OF THE FED: ROOTS TO BRANCHES</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶ 	<p>GROUP I: THE N.Y. FED: A STARRING ROLE</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶
<p>GROUP E: CURRENCY AROUND THE WORLD</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶ 	<p>GROUP J: MONEY AND ART</p> <ul style="list-style-type: none"> ▶ ▶ ▶ ▶ ▶

Assume that you work for a travel magazine. You've been given the assignment of reviewing FedWorks. Your article must describe what the exhibition is about, some of the things you liked most, some of things you would like to see changed, and what you think visitors will learn from visiting the exhibition.

FedWorks

Long one of the most popular tourist attractions in the Wall Street area, the Federal Reserve Bank of New York recently opened an exhibition called FedWorks.

FedWorks features

Visitors to the exhibition will most appreciate many of the exhibits, especially

Some of the things we would have liked to see done differently are

One thing is certain. Anyone who visits FedWorks will learn much more about our nation's central bank than he/she knew before. For example, we learned that

Debriefing the Visit

TOPIC: FEDWORKS REVIEW

OBJECTIVES

Students will be able to:

- critically review FedWorks as a tourist attraction,
- compare and contrast their designs for FedWorks exhibits with the actual designs, and
- demonstrate an understanding of what they learned about the Fed and the economy from their visit to the FRBNY.

DEVELOPMENT

■ Ask three or four volunteers to read their reviews of FedWorks from *Student Visit Handout #7*. Then, as part of the whole-class discussion, have students explain their answers to the following questions:

- What was your overall reaction to our visit to the FedWorks exhibition?
- What did you like most?
- What suggestions would you make for improving the exhibition?
- How strongly would you recommend that other classes visit the exhibition?

■ Ask students to gather in the groups in which they worked at FedWorks. Have them compare their design for the topic they were assigned (*Student Pre-Visit Handout #1, "Special Project"*) to the actual design of the exhibit they studied at FedWorks. Then, as part of the whole-class discussion, have each group explain its answers to the following questions, with reference to the exhibits they were assigned:

- What did you learn about the Fed or our economy from studying the exhibits at FedWorks?
- Of the things you learned at FedWorks, which were the most significant?
- How do the things you learned at FedWorks help explain why the Federal Reserve is such an important institution?
- Based on what you saw, what questions about the Fed would you like to ask?
- What were the most significant similarities and differences between your designs and the actual designs of the exhibits?

- Which features of the exhibits you designed did you prefer to the actual exhibits?
- Which features of the actual exhibits did you prefer to your exhibits?

■ Tell students they will now be playing FedWorks Jeopardy, a special version of the popular television game program based on the exhibition at the New York Fed that the class recently visited.

Write on the chalkboard or an overhead a facsimile of the game board below, copying only the categories appearing in the boxes across the top and the point values appearing in the boxes running down the column on the far left. Don't write in the other boxes.

■ Divide the students into two teams. Explain to students the following rules:

- A coin toss will determine which team goes first.
- The teacher will call on a student-volunteer from the team that won the coin toss, who must select a box worth a specific point value under any category. The teacher will read the answer in the box to the volunteer who must supply the correct question. For example, if the answer in the box read, "The individual whose picture appears on a one hundred dollar bill." The correct question would be, "Who is Ben Franklin?"
- If the student provides the correct question, his or her team will be awarded the number of points assigned to the box in which the answer appeared. The teacher will then call on a different volunteer. No student who has provided one correct question may provide a second question until all members of his or her team have had a turn. A team will continue its turn until one of its members fails to give the correct question.
- When a student from one team does not provide the correct question, his or her team loses the number of points assigned to the box in which the answer appeared. Then, the teacher will call on a volunteer from the second team. If that volunteer provides the correct question, his or her team will be awarded the number of points assigned to the box in which the answer appeared. However, if that volunteer's question is incorrect, his or her team will *not* lose any points. In this case, whether or not a correct question is provided, the teacher will begin calling on volunteers from the second team, until a team member fails to provide the correct question.
- The team that wins is the one with the most points by the end of the class period or by the time all of the boxes have been selected.

POINTS	ECON 101	THE STRUCTURE OF THE FED AND THE HISTORY OF MONEY	THE FED: MAKING MONETARY POLICY	THE FED: MANAGING THE PAYMENTS SYSTEM AND REGULATING AND SUPERVISING BANKS	FEDWORKS: POTPOURRI
5	The <i>Check-out-the-Economy</i> exhibit, features 12 of these, which the Fed looks at to help it determine the health of the economy. <i>What are (economic) indicators?</i>	The first dollar bill in colonial American was issued in this colony. <i>What is Maryland?</i>	The economic condition characterized by a general rise in the level of prices that the Fed tries to prevent. <i>What is inflation?</i>	The name of the Fed's communications network by which \$1.6 trillion of funds and securities are transferred everyday. <i>What is Fedwire?</i>	The approximate number of gold bars contained in the vaults of the New York Fed. <i>What is 700,000?</i>
10	The <i>Economic Circle</i> exhibit reveals that this sector of the economy accounts for 2/3 of the spending on goods and services in our economy. <i>What are households (consumers)?</i>	The Federal Reserve was created during the term of this U.S. President. <i>Who was Woodrow Wilson?</i>	The name of the group composed of Fed governors and Reserve Bank Presidents that votes on monetary policy decisions. <i>What is the Federal Open Market Committee (FOMC)?</i>	The Fed processes 65 million of these pieces of paper everyday, which are used to pay for many goods and services. <i>What are checks?</i>	Authentic U.S. currency is made of these two materials. <i>What are cotton and linen?</i>
15	Perhaps the most important sign of economic well-being, this measures the total dollar value of goods and services produced in one year. <i>What is the Gross Domestic Product?</i>	The title of the person who heads the Fed's Board of Governors. <i>What is Chairman?</i>	Of the three monetary policy tools used by the Fed, the one which is used most often. <i>What are open market operations?</i>	In evaluating the safety and soundness of banks, the Fed uses a rating system symbolized by these animals? <i>What are CAMELS?</i>	This group tends to be hurt by inflation because much of its income is fixed. <i>Who are pensioners/retirees?</i>
20	Although this is not the most comprehensive measure of inflation, it is the most closely monitored. <i>What is the CPI?</i>	Members of the Board of Governors are appointed for terms of this length of time. <i>What is 14 years?</i>	Of either raising, lowering or keeping short-term interest rates the same, the action the Fed would most likely take to combat a severe recession. <i>What is lowering rates?</i>	Any one of the six criteria upon which Bank's safety and soundness is rated? <i>What is: c=capital, a=assets, m=management, e=earnings, l=liquidity, or s=sensitivity to market risk</i>	A watermark of this person has been included on the new \$100 bill. <i>Who is Ben Franklin?</i>
25	The maximum amount of money resulting from a \$1,000 bank deposit if the reserve requirement is 10%. <i>What is \$10,000?</i>	This city serves as the site for the New York Fed's only Branch. <i>What is Buffalo?</i>	As the "monetary pilot" for the United States, the Federal Reserve attempts to regulate their supply in order to influence inflation and economic growth. <i>What are money and credit?</i>	Direct deposit, stored value cards, and the ACH (automated clearing house) are all forms of these kinds of payments. <i>What are electronic payments?</i>	The meaning of the expression "novus ordo seculum," which appears on the back of every \$1 bill. <i>What is a "new order of the ages?"</i>

Instructional Materials

FOR TEACHING AN EXTENDED UNIT
ON THE FEDERAL RESERVE

TEACHER STRATEGY #1: EXTENDING UNIT

TOPIC: THE FED: TODAY'S HEADLINES AND HISTORICAL BACKGROUNDS

OBJECTIVES

Students will be able to:

- draw conclusions about the Fed from recent headlines,
- explain the reasons why the actions of the Fed make headlines,
- discuss the economic and financial conditions at the end of the 19th and beginning of the 20th centuries that led to the creation of the Federal Reserve, and
- analyze the arguments supporting and opposing the creation of the Federal Reserve.

DEVELOPMENT

■ Distribute *Extended Unit Student Handout #1A*. As a homework assignment, have students cut out and affix two recent headlines about the Fed in spaces “A” and “B.” Subsequently, using *Extended Unit Student Handout #1A* as the basis of the whole-class discussion, ask students to explain their answers to the following questions:

- What conclusions can you draw about the Federal Reserve from these headlines?
- Which of the headlines are more favorable and which more unfavorable to the Fed?
- How can you explain the difference of opinion about the Fed expressed in these headlines?
- From what you learned about the Fed thus far, how can you explain the fact that the Fed gets so much attention?
- To what extent is the newspaper a reliable source for information and opinions? To what extent is it unreliable?



■ Distribute *Extended Unit Student Handout #1B*. Have students complete the exercise on the handout. Then ask them to explain their answers to the following questions:

- How would you describe the economic and financial conditions that existed at this time?
- How would you have responded to the survey question in the exercise? How do you think the conditions portrayed on this page would have affected consumers, business-owners, workers, and the government at the time?
- Which headlines/story on this page would have given you the greatest concern? Why?
- To what extent is it the job of government to correct the conditions like those described on this page? Explain.

■ Distribute *Extended Unit Student Handout #1C*. Have students complete the exercise on the activity sheet. Then, as part of the whole-class discussion, ask them to explain their answers to the following questions:

- Summarize the major arguments for and against the creation of the Federal Reserve.
- Why do you think many bankers opposed the Federal Reserve? Why did most favor it?
- If you were asked to convince bankers to support the Federal Reserve, which arguments would you raise?
- Which of the arguments opposing the creation of the Fed would you have found most convincing? least convincing?
- Suppose you could have voted on the proposal to create the Federal Reserve, would you have voted in favor or against? Explain the reasons for your vote.

“HEADLINES”

Stud

World Finance and Commerce

Many Americans hurt by
Fed interest rate hikes

WORLD TRIBUNE

Thank the Fed for Steady Growth
and Low Inflation

DAILY GLOBE

ECONOMISTS CREDIT THE FED FOR LONGEST
PERIOD OF BUSINESS EXPANSION EVER

HERALD EXAMINER

WHY THE RICH GET RICHER:
BECAUSE THE FED IS CREATING A RECESSION
FOR THE REST OF US

A.

B.

The headlines on this page are similar to those found in newspapers at the end of the 19th and beginning of the 20th centuries.

“HISTORICAL BACKGROUNDS”

EXERCISE

Assume you are living at the time portrayed in the headlines and story below. How would you respond to the following survey question? Be prepared to explain your response.

Which of the following responses best describes your feelings about existing financial conditions and the banking system in the U.S.?: (a) very confident (b) fairly confident (c) somewhat concerned (d) fearful.

BANKS IN DIFFERENT PARTS OF THE U.S. ISSUING “WILDLY” DIFFERENT KINDS OF MONEY, GOVERNMENT STUDY SHOWS

GOLD, GOLD CERTIFICATES, SILVER, SILVER CERTIFICATES, GREENBACKS AND NOTES AMONG THE KINDS OF MONEY USED. SERIOUS PROBLEMS REPORTED

“Banks Fail to Provide Necessary Credit,” Cry Consumers, Farmers and Businesses

INTEREST RATE SWINGS ON LOANS CALLED “FRIGHTENING.” RATES JUMP FROM 2.3% TO 7.3% DURING AUGUST

Bank President Tells All

OUR TOWN, USA. Today, Feb. 4, 1896
The President of the First National Bank admitted today how he and other local bank presidents were able to fool inspectors and cover up the fact that their banks had made so many bad loans. “When the bank inspectors make their rounds, we send the same strong box full of cash through the forests from bank to bank. It was always found waiting for the more slowly moving inspectors when they arrived. When this convenient revolving fund was lacking, we filled boxes with nails or glass, with a layer of gold or silver coins on top, which would be exhibited to the bank inspector who would walk away happy.”

“THE FEDERAL RESERVE (1913): PRO AND CON”

EXERCISE

Place an ‘X’ next to the arguments you think are most convincing in opposition or support of the creation of the Federal Reserve.

ARGUMENTS OPPOSING THE FEDERAL RESERVE:

- Dr. Joseph French Johnson, professor of political economy at New York University said “the creation of the Federal Reserve will” bring on a dangerous credit expansion that will cause “a collapse of the banking system.”
- James B. Forgan, banking magnate of Chicago, declared that the idea of creating the Federal Reserve was “unworkable, impractical and fundamentally bad.” It will bring about “the most damnable contraction of currency ever seen in any country,” he said.
- Other bankers said that the Federal Reserve System would produce an extraordinary inflation.
- President Arthur T. Hadley of Yale, a noted economist, believed that the Federal Reserve would lead to inflation on an unparalleled scale. He was so deeply moved that he wrote a personal letter to President Wilson on July 1, 1913, for the purpose of pointing out to the President that the Federal Reserve would “involve the country in grave financial danger. Practically all of our gold will leave for Europe,” he wrote.
- Frank A. Vanderlip, president of the National City Bank of New York, declared that the notes of the Federal Reserve Banks would be “fiat money” (money printed by the government, but that the people feel has little value).
- James Hill said the “plan was socialistic.”

President Woodrow Wilson proposed the creation of the Federal Reserve as a means of dealing with the financial and economic problems of the time. However, as the readings below describe, the Federal Reserve had many opponents as well as supporters.

MANY OF THE ARGUMENTS SUPPORTING THE CREATION OF THE FEDERAL RESERVE APPEAR IN THE LETTER BELOW:

Dear Members of Congress:

We are writing this letter to request your vote in favor of the Federal Reserve Bill. The following arguments we hope will convince you of the merits of the Bill:

- (1) “The Federal Reserve, with its proposed 12 District banks around the U. S. and Federal Reserve Board in Washington, is structured to provide for both regional and national needs.”
- (2) “In that all member banks are required to keep some of their reserves in their local Reserve Bank, funds will be available to help individual banks in case of an emergency.”
- (3) “When banks require additional funds to meet extraordinary needs they will now be able to turn to a local Reserve Bank for credit.”
- (4) “The Federal Reserve System will lead to a more elastic currency — that is, a money supply that will increase to meet the needs of our citizens during bad economic times, and one that will shrink during times when an overheated economy threatens to cause serious inflation.”

Your vote can make these promises a reality.

Sincerely,

*Committee for the
Federal Reserve*

TEACHER STRATEGY #2: EXTENDING UNIT

TOPIC: “OVERVIEW OF THE FEDERAL RESERVE SYSTEM”

OBJECTIVES

Students will be able to:

- describe the structure and functions of the Federal Reserve System,
- evaluate reforms that have been proposed for restructuring of the Fed,
- analyze the arguments of those who favor and those who oppose the Fed’s independence, and
- take a stand for or against a continuation of the Fed’s independence.

DEVELOPMENT

■ Distribute *Extended Unit Student Handout #2A*. Have students complete the exercises on the handout. Then, as part of the whole class discussion, ask students to explain their answers to the following questions:

- What did you learn about the responsibilities of the Federal Reserve from the handout?
- Based on its responsibilities, why is the Federal Reserve so important to the nation’s economy?
- Considering its responsibilities, is it a good idea that the people who run the Fed are not elected? Would it be a good idea to have a member of the President’s cabinet and a representative of Congress serve as voting members of the FOMC?
- Which of the Fed’s responsibilities has the greatest impact on your life?
- In your own words, how would you describe the structure of the Federal Reserve to someone who knew nothing about it?
- In what ways does the Fed’s structure help it to carry out its national and regional responsibilities?
- Which aspect of the Fed’s structure or responsibilities is most in need of reform? Why?



■ Distribute *Extended Unit Student Handout #2B*. Ask the class to complete the exercise on the handout. Divide the class into eight groups. Assign a different one of the four suggested reforms to two different groups. Have each group discuss the reform they have been asked to consider. Then have them decide whether they favor, oppose or are not sure about the proposed reform. Each group should appoint a spokesperson to explain the decision reached about the proposed reform. As part of the whole-class discussion, ask students to address the following:

- Describe the reforms you considered.
- Assume you were a supporter of these reforms, what arguments would you use to convince other people to support them?
- Suppose these reforms were approved by Congress. What would be their major impacts on the economy?

■ Ask each spokesperson to explain his/her group’s analysis of the proposed reform.

■ Distribute *Extended Unit Student Handout #2C*. Have the students complete the exercise on the handout. Then have them explain their answers to the following questions:

- What is the *Daily Times* editorial saying about the Fed’s independence?
- Discuss the arguments used in the *Daily Times* editorial to support its conclusion.
- Which arguments are the strongest? Which are the weakest?
- What is *Our Town’s News* editorial saying about the Fed’s independence?
- Discuss the arguments used in the *Our Town’s News* editorial to support the conclusion.
- Which arguments are the strongest? Which are the weakest?
- Do you think the advantages of having an independent Fed outweigh the disadvantages? Why?

“STRUCTURE AND FUNCTIONS OF THE FED”

EXERCISE

Place an ‘X’ next to the responsibility of the Federal Reserve that you believe has the greatest effect on your life.

RESPONSIBILITIES

The Federal Reserve serves as the central bank of the United States. In this capacity, it has the following responsibilities:

- Manage the nation’s monetary policy by setting short-term interest rates to influence the supply of money and credit in such a way as to provide for a healthy economy, characterized by stable prices (i.e., little inflation) and economic growth (i.e., gains in output, employment, and income).

- Supervise and regulate banks to assure their safety and soundness. Protect depositors, promote healthy competition among banks, and safeguard depositors in financial transactions.
- Promote the safety and certainty of the nation’s payment system. (This has led to the Fed playing a major role in the processing of checks and electronic payments.)
- Act as the banker for the government (i.e., maintain the Treasury’s checking account, distribute new currency, and issue Treasury bills, notes and bonds).
- Act as a bank for bankers (e.g., issuing new currency and destroying worn out currency, holding the deposits of banks in special accounts and providing loans for banks under special circumstances).

EXERCISE

Which aspect of the Fed’s structure (described below) is most in need of change?

STRUCTURE: THE FEDERAL RESERVE SYSTEM IS MANAGED BY A BOARD OF GOVERNORS, CONSISTING OF SEVEN MEMBERS, APPOINTED BY THE PRESIDENT OF THE U. S. AND CONFIRMED BY THE SENATE FOR 14-YEAR TERMS.

BOARD OF GOVERNORS	FEDERAL OPEN MARKET COMMITTEE <small>(Sets short-term interest rates)</small>	FEDERAL RESERVE BANKS	MEMBER BANKS
<p>7 members appointed by the President of the United States and confirmed by the Senate to 14-year terms.</p>	<p>7 members of the Board of Governors</p> <p>+</p> <p>5 of the 12 presidents of the Federal Reserve Banks (President of the Federal Reserve Bank of New York is always a member)</p>	<p>12 Banks operating 25 Branches</p> <p>Bank presidents selected by Board of Directors of each Bank, approved by Board of Governors.</p> <p>Board of Directors (9 members, 6 non bankers and 3 bankers)</p>	<p>About 40 % of all commercial banks in U.S. belong to the Federal Reserve System. All national banks must be members; state-chartered banks may join, if they meet certain requirements.</p>
	<p>7 Governors sit on FOMC</p>	<p>While all 12 presidents attend meetings, 5 of the 12 Bank presidents serve as voting members of the FOMC.</p>	<p>Member Banks contribute capital and elect 6 members of the Board of Directors</p>

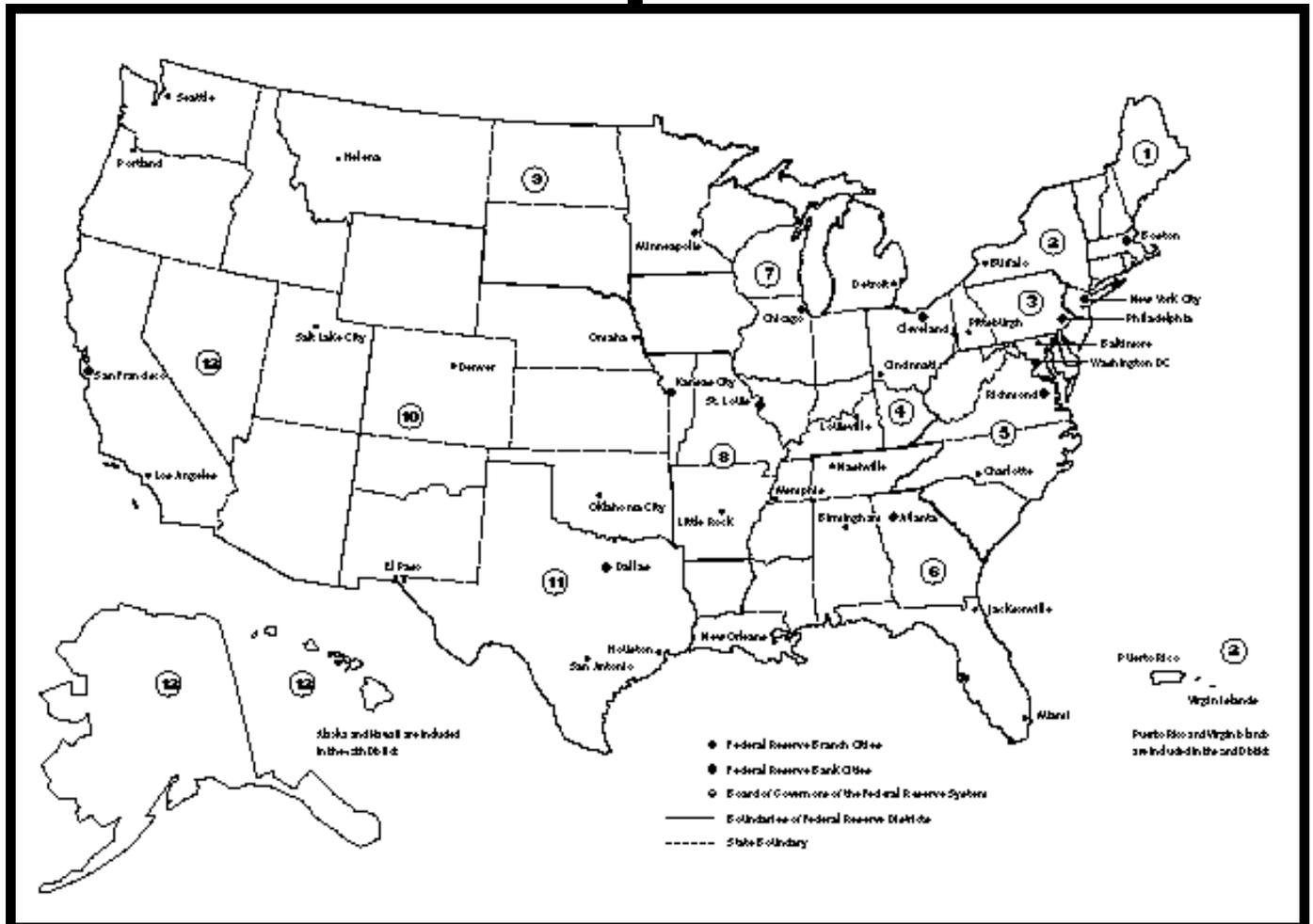
STUDENT HANDOUT # 2A

CONTINUED...

In addition, regional Federal Reserve Banks serve each of the nation's 12 Federal Reserve Districts (most Districts also have Branches). Reserve Banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, St. Louis, Kansas City, Dallas, and San Francisco. (See map below.)

Decisions about monetary policy are made by the Federal Open Market Committee, which is composed of the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four other Reserve Bank presidents (the 11 other Reserve Bank presidents, serving terms of one year, take turns as voting members of the FOMC, although all of them attend meetings and participate in the discussions).

BOUNDARIES OF FEDERAL RESERVE DISTRICTS AND THEIR BRANCH TERRITORIES



**“STRUCTURE AND FUNCTIONS
OF THE FED: SUGGEST REFORM”**

Four proposals for reforming the Fed appear below. Indicate which of these reforms you support, oppose, or are not sure of by placing a check mark in the appropriate box:

REFORM	YES	NO	NOT SURE	REASONS
1. Change the length of terms of Fed governors from 14 to 8 years.				
2. Reduce the number of Federal Reserve Bank head offices from 12 to 5, located in the largest cities in the country.				
3. All FOMC members will be elected: Fed Governors in national elections and Federal Reserve Bank presidents by elections in their respective Federal Reserve Districts.				
4. Eliminate promoting economic growth and full employment from the Fed's goals, requiring the Fed instead to focus on fighting inflation only.				

“FED INDEPENDENCE”

The Fed has greater independence today from direct political influence than it had in 1913. Read the opposing hypothetical editorials at right. In the space provided, write a letter to the editor expressing your feelings about the question: “How Independent Should the Fed Be?”

LETTER TO THE EDITOR:

“How Independent Should the Fed Be?”

Handwriting lines for the letter to the editor.

The DAILY TIMES

Congress and the President should have the power to exercise greater control over the Federal Reserve. The Fed's independence allows it to ignore the wishes of the majority of Americans, causing more harm than good. Although the members of the Federal Reserve Board of Governors are appointed by the President, with the advice and consent of the Senate, the fact the Governors serve 14-year terms means that they can ignore the wishes of the nation's chief executive and Congress, or take actions that would work against steps instituted by our most important elected officials. In fact, there have been numerous occasions where an administration favored stimulating the economy to bring about greater economic growth and more jobs. Rather than complying, the Fed

either took no action or, even worse, tightened the supply of money and credit, making a bad situation worse. At the very least, the President ought to have the authority to appoint a new Fed Chairman at the start of the President's term in office. Also, it's time we examined more closely the practice of having the presidents of Reserve Banks named by the regional Banks' Boards of Directors, rather than by the President. One should remember that five of these Bank presidents, along with the seven Fed governors, vote roughly every six weeks to determine the nation's monetary policy. Reducing the Fed's independence can only lead to a better coordinated, pro-growth economic policy, which will greatly benefit the American people in the long run.

Our Town's News

Preserving the Fed's existing independence is important. Studies reveal that the more independent a central bank, the lower the nation's inflation rate. Besides, the Fed does take into account the administration's policies, political trends, the needs of the Treasury and the desires of the people. The Fed often attempts to coordinate its monetary policies with the fiscal policies of the administration. The fact that the Fed is able to counter administration policies is a positive factor, because such power enables the Fed to check fiscally unwise actions taken by a politically motivated president. For example, during an election year a president might try to win votes by overstimulating the economy through federal borrowing, spending and tax cuts, thus risking inflation.

The Fed could counter such actions by tightening the supply of money and credit. Presidents already have the power to appoint individuals who agree with the administration's economic policies to the Board of Governors. Giving the President or Congress greater control over the Fed would prevent the central bank from acting quickly to correct economic imbalances. Placing Fed policy-makers under the thumb of the administration and Congress could lead to lengthy debates over the nature, seriousness and possible cures for economic problems. Precious time will be lost, possibly resulting in a small economic or financial brush fire turning into a major economic or financial conflagration.

TEACHER STRATEGY #3: EXTENDING UNIT

TOPIC: “MAKING MONETARY POLICY”

OBJECTIVES

Students will be able to:

- describe the structure and decision-making process of the FOMC;
- analyze economic, financial, and international economic conditions relevant to monetary policy-making decisions; and
- decide the direction for current monetary policy based on current and projected economic, financial, and international economic conditions.

DEVELOPMENT

■ Distribute *Extended Unit Student Handout #3A*. Assign students to the roles listed on the handout. Review with the class the different parts of the modified FOMC simulation described in the handout. Allow students at least two weeks to prepare for the simulation. On the day of the simulation, instruct the Chairman to lead the meeting, according to the agenda appearing under the Chairman’s responsibilities.

■ After the simulation, ask each student playing an FOMC member to explain his or her vote. Then, as part of the whole-class discussion, ask students to explain their answers to the following questions:

- What did you learn about monetary policy decision-making from this simulation?
- If you were a member of the FOMC, which of the indicators discussed by our economists would you consider most important? least important? Which other indicators (such as those found in FedWorks) should the FOMC consider in making its decisions about monetary policy?
- In our class’s mock FOMC meeting, do you think the Committee decided correctly? Why or why not?
- Do you think the real FOMC should focus more on fighting inflation or fighting unemployment? Why?
- Do you think that the meetings of the FOMC should be televised? Why do many people outside the Fed feel that FOMC meetings shouldn’t be televised?



■ Distribute *Extended Unit Student Handout #3B*. Ask students to complete the assignment described on the worksheet. (Please note this is a long-term assignment, requiring at least *three months* to complete. Advise students with access to the Internet, that they can readily find updated information on these indicators at the White House’s web site — www.whitehouse.gov. Go to the “Briefing Room” page. Then go to the “Economic Statistics Briefing Room.”). On the day this assignment is due, have students explain their answers to the following questions:

- What do these charts tell us about the past and present condition of the economy?
- Describe any changes that have taken place since you began charting these indicators.
- Which of these indicators is the most reliable for assessing the health of the economy? Which is the least reliable?

“FOMC SIMULATION”

In order to learn how the Fed makes decisions regarding monetary policy, the class will participate in a modified simulation of a Federal Open Market Committee (FOMC) meeting. As part of the simulation, students will be given one of the following roles and related responsibilities:

ROLES

NO. OF STUDENTS	ROLE
10	Economists
1	Chairman of the Board of Governors* (also Chairman of the FOMC)
1	President of the Federal Reserve Bank of New York* (Vice Chairman of the FOMC)
6	Members of the Board of Governors of the Federal Reserve System, other than the Chairman*
4	Presidents of Federal Reserve Banks*

Additional (Depending on the class size, two students each can play the roles of the six Governors — other than the chairman — and the four presidents of Federal Reserve Banks)

** voting members of the FOMC*

RESPONSIBILITIES

Economists — The following tasks should be divided among the 10 economists:

- 1) Research the current performance of, and projections for, the following economic indicators: real GDP, nonfarm payrolls, and the consumer price index. Then, based on this research, the “economists” should prepare a recommendation as to whether the Fed should raise, lower, or leave unchanged the level of short-term interest rates.
- 2) Develop a presentation of your research findings and an explanation of the reasons for your recommendations to be delivered at the FOMC meeting simulation.

Governors and Presidents — Prior to the FOMC simulation, consult newspapers, magazines, the Internet, and other sources to find the current status and future prospects for the following indicators: real GDP, nonfarm payrolls and the consumer price index. Consider the three possible alternatives for short-term interest rates: raise, lower, or keep the same.

Chairman of the Federal Reserve — conducts the mock FOMC meeting according to the following agenda:

- 1) Chairman calls the meeting to order.
- 2) Economists make their presentation consisting of an analysis of the current status of, and projections for, the real GDP, changes in nonfarm payrolls and the consumer price index, and a recommendation as to whether short-term interest rates should be raised, lowered, or kept the same.
- 3) Chairman makes his recommendation as to whether short-term interest rates should be raised, lowered, or kept the same.
- 4) Governors and Bank presidents discuss their reactions to the presentations and recommendations for interest rates.
- 5) Each of the 12 voting members of the FOMC votes to do one of the following: raise, lower or keep short-term rates the same.

TEACHER STRATEGY #4: EXTENDING UNIT

TOPIC: PARTICIPATING IN THE PAYMENTS SYSTEM

OBJECTIVES

Students will be able to:

- explain the role played by the Fed in check-processing,
- examine the evolution toward a cashless/checkless society, and
- discuss the advantages and disadvantages of moving to a cashless/checkless society.

DEVELOPMENT

■ Distribute *Extended Unit Student Handout #4A*. Have students complete the exercise on the handout. Then divide the class into pairs, having the members of each pair explain check processing to one another. As part of the whole-class discussion, ask students to explain their answers to the following questions:

- Based on the diagram, how would you describe check processing in your own words?
- To what extent is the role played by Federal Reserve District Banks in check processing important to individuals and businesses?
- Many people believe that, in the future, all payments will be made electronically and there will be no cash or checks. What do you see as the advantages and disadvantages of a checkless and cashless society?
- Do you think the Fed should be promoting a payments system that does away with checks and cash?

■ Distribute *Extended Unit Student Handout #4B*. Have students complete the exercise on the handout. Then, as part of the whole-class discussion, have students explain their answers to the following questions:

- What is this article about?
- What conclusion did you write for this article?
- Describe the major advantages of doing away with checks and cash as a form of payment.
- Explain some of the arguments made by those who oppose doing with away with checks.
- Should we look forward to, or oppose, a cashless/checkless world?
- What would be a good headline for the article?

■ Distribute *Extended Unit Student Handout #4C*. Have students complete the exercise on the handout. Then, as part of the whole-class discussion, have them explain their answers to the following questions:

- What information do you get from this chart?
- Explain the title you gave to this chart.
- What evidence does this chart provide that we are moving toward a cashless/ checkless society? How convincing is the evidence provided in this chart that the days of a cashless/checkless society are numbered?
- How can you explain the increase in electronic transfers as a form of payment?

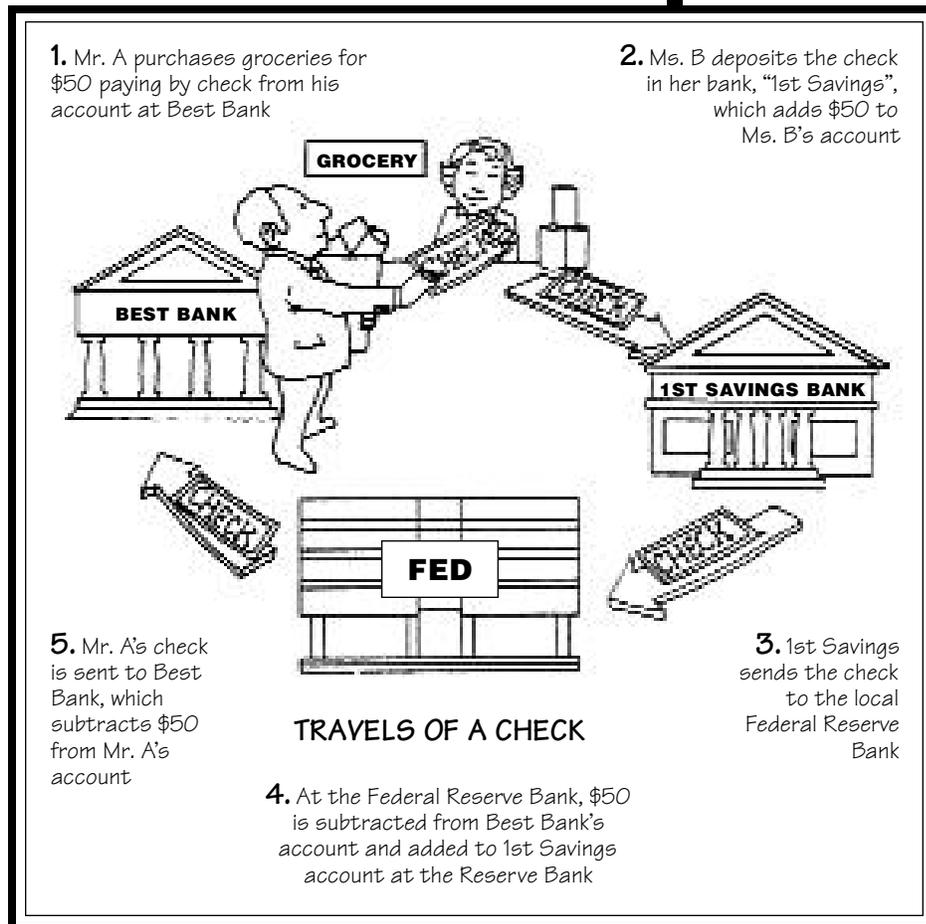


“CHECK CLEARING”

EXERCISE

Write an outline for a talk on the check clearing process in the space below:

The diagram below pictures the role that Federal Reserve Banks, like the Federal Reserve Bank of New York, play in clearing checks. After studying the diagram, write an outline for a talk you would give to somebody else describing the check clearing process.



“TOWARD A

CHECKLESS/CASHLESS WORLD”

After reading the article below, complete the last sentence and write a conclusion.

A Magazine About Future Trends

Recently, New Hampshire residents were surprised when they opened their phone bills. Along with the usual envelop enclosed for paying by cash or check, they found a form giving the phone company permission to deduct from their bank account the monthly cost of phone service. In the bill, the phone company explained that the new system of payment would benefit the customer, who would save the cost of postage and the work of writing and sending the check, and the company which would receive its money faster and won't have to open envelops and process checks.

Some futurists are telling us that we are moving to the day when all payments will be made electronically, rather than by cash or check. As proof of this they point to the fact that between 1977 and 1996, the value of funds transferred electronically was almost double the value of funds sent by check.

Many businesses and government agencies are looking forward to a cashless/checkless world. Checks are expensive to process. The United States Treasury's Financial Management Service, which pays most of the government's bills, claims that an electronic payment costs only 2 cents to process, compared to 4.3 cents for a payment by check.

The move toward a cashless/checkless society is expected to get a boost from a new idea called electronic bill presentment. This refers to the means by which a company bills a customer through the customer's e-mail address. Receiving a bill electronically, with no return envelope enclosed, provides an added inducement to pay electronically, too.

However, not everybody is a fan of the move toward a cashless/checkless world. A number of bank depositors prefer

to have their canceled checks as proof that a bill was paid. These customers balk at those banks' decisions to merely make electronic copies available, rather than actually sending the check back to the issuer. Another obstacle to the end of cash and checks is the fact that a large majority of households neither have computers nor are linked to the Internet. Moreover, a

We are moving to the day when all payments will be made electronically

significant part of the U.S. population, perhaps 10 million people, have no bank account from which electronic transfers can be made and to which payments can be deposited. These people, many of whom are in lower income groups, often resort to check-cashing services and supermarkets for cashing checks and postal or private money orders for paying bills. Despite the push toward electronic funds transfers, 63.4 billion checks were written in 1996 and that amount is expected to climb each year in the future. This would lead one to conclude that, with regard to the coming of the cashless/checkless world,

“PAYMENTS CHART”

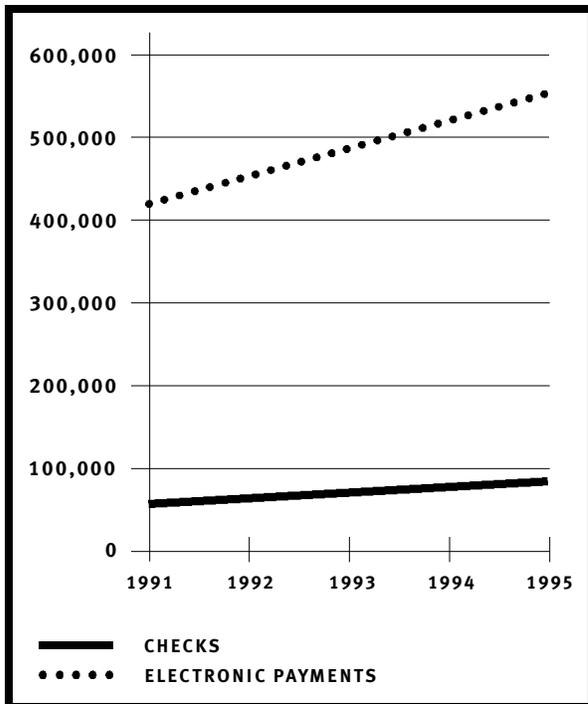
Study the chart below and create a title.
Write the title on the line provided below.

TITLE: _____

(value of transactions in billions)

FORM OF PAYMENTS	1991	1992	1993	1994	1995
CHECKS	66,000	67,000	69,160.7	71,500	73,515
ELECTRONIC PAYMENTS (includes credit and debit cards and transfers via computer)	416,324.8	445,350.1	478,112	515,760.9	543,074.3

USE OF CHECKS AND ELECTRONIC PAYMENTS IN THE UNITED STATES



EXTENDING STRATEGY #5

TOPIC: SUPERVISORY AND REGULATORY RESPONSIBILITIES

OBJECTIVES

Students will be able to:

- analyze the Fed’s regulatory and supervisory responsibilities, and
- explain how the Fed’s regulatory and supervisory roles support the goal of maintaining a safe and sound banking system.

■ Distribute *Extended Unit Student Handout #4*. Select students to play the following roles:

O- FRBNY	FEDERAL RESERVE BANK OF NEW YORK OFFICER
S1	STUDENT#1
S2	STUDENT#2
S3	STUDENT#3
S4	STUDENT#4
S5	STUDENT#5
S6	STUDENT#6
S7	STUDENT#7
S8	STUDENT#8
S9	STUDENT#9
S10	STUDENT#10



■ Have students act out the play. Then have students complete the exercise after the play. As part of the whole-class discussion, have students explain their answers to the following questions:

- What do we learn about the Fed’s role in supervising and regulating banks from this play?
- What do you think is meant by the term “safe and sound banking system?”
- In what ways do the Fed’s supervisory and regulatory actions promote a safe and sound banking system?
- If you were rating a bank from the point of view of a bank customer, what criteria would you consider?
- How important is the role of a bank examiner to the bank’s customers?
- How do its supervisory and regulatory roles complement the Fed’s other major functions (i.e., promoting an effective payments system and developing monetary policy)?

**“BANK SUPERVISION
AND REGULATION”**

- O-FRBNY** Welcome to the New York Fed.
- S1** We're very happy to be here.
- S2** In our economics class, we learned a lot about the part played by the Fed in making monetary policy. However, as a result of visiting FedWorks, we learned that the Fed is also involved in bank supervision and regulation.
- O-FRBNY** Yes, that's one of our major responsibilities.
- S3** What is bank supervision and regulation all about?
- O-FRBNY** We're committed to safety and soundness in the banking system. After all, leaving your money and valuables with strangers in a bank requires a great deal of trust.
- S4** Do you regulate all banks?
- O-FRBNY** No. We regulate state member banks, bank holding companies, foreign banks that do business in the U.S., and U.S. banks that do business in other countries. The Board of Governors in Washington issues regulations governing depository institutions, and the Reserve Banks have examiners who rate banks on their safety and soundness and compliance with rules and regulations.
- S5** You mean you give banks grades like we get in school?
- O-FRBNY** Something like that.
- S6** At FedWorks, I learned something about how you rate banks. That was the exhibit with the camel. Why a camel?
- O-FRBNY** We call the system we use to rate banks, the CAMELS system, because each of the letters in CAMELS stands for a different criterion for rating banks.
- S7** So what does each letter stand for?

Assume that during your visit to the New York Fed a group of students has the opportunity to interview an official responsible for bank supervision and regulation.

- O-FRBNY** C = capital, a = assets, m = management, e = earnings, l = liquidity, and s = sensitivity to market risk.
- S8** What do those things mean?
- O-FRBNY** What they mean is that examiners check to see that banks are being run according to sound banking, accounting and financial principles; that loans are made wisely; that banks have sufficient funds available for depositors who want to withdraw them; and that when banks invest their depositors' money, they do so without taking foolish risks.
- S9** Does the Fed have anything to do with truth-in-lending?
- O-FRBNY** Yes. The Board of Governors in Washington writes and carries out regulations to make sure that consumers are treated fairly in financial transactions. If a consumer borrows money from a bank he or she should clearly understand the terms of the loan.
- S10** I bet all of these responsibilities keep you very busy.
- O-FRBNY** That's for sure. But I'd like to tell you about one additional responsibility before I go. Recently, there has been a trend in the banking industry in which large banks buy up many other small banks. Maybe you've seen examples of this in your town. The Fed tries to make sure that there is real competition in the banking industry, and we try to make sure that customers will have the opportunity to benefit from competition.

**“BANK SUPERVISION AND
REGULATION”**

EXERCISE

Make believe you are a reporter for your school newspaper. You have been assigned the task of writing a story based on your interview with the Fed official. Write the story in the space below.

KEEPING BANKS SAFE AND SOUND

A Big Job for the Fed