



## **Federal Reserve Bank of New York**

### **High School Fed Challenge: Questions accompanying "Charts to Include in Presentations"**

#### **Civilian Unemployment Rate**

1. Define the unemployment rate.
2. Are full time students unemployed? Retired people? A person who has given up looking for a job because he or she doesn't believe there are any jobs available?
3. What does the unemployment rate tell us about current resource utilization and output gap in the economy?
4. Can you tell the NAIRU from the current unemployment rate?

#### **Core Consumer Price Index and Personal Consumption Expenditure**

1. Define the CPI and PCE price indices.
2. Explain the difference between headline and core measures of inflation.
3. Which measure is higher right now: headline or core inflation? What does that tell you about food and energy inflation?
4. Are these measures consistent with indicators of the output gap? Explain.

#### **Headline Consumer Price Index and Personal Consumption Expenditure**

Same as above

#### **Effective Federal Funds Rate**

1. What is the federal funds rate?
2. How does monetary policy influence the federal funds rate?
3. What is the approximate current level of the effective federal funds rate?
4. Why has monetary policy kept the rate so low in recent months?



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**Real Gross Domestic Product**

1. Define gross domestic product. What is "real" GDP?
2. What do changes in real gross domestic product tell us about the economy?
3. Given the evidence in the chart, would you judge the U.S. economy to be growing at faster than, slower than, or at about the sustainable rate?
4. If the U.S. is growing faster than the long run sustainable rate, does that necessarily mean that that the Fed should raise interest rates immediately? Why or why not?

**Total Nonfarm Payroll Employment**

1. What do trends in payroll employment tell us about the current output gap and economic activity?
2. What might trends in payroll employment tell us about the future output gap and economic activity?

**Capacity Utilization**

1. Define capacity utilization.
2. What percent of U.S. capacity is currently being utilized?
3. How does this compare to capacity utilization when the unemployment rate is low?
4. What does this chart suggest about the output gap right now?

**Consumption and Saving**

(No questions)



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**Dollar/Euro Exchange Rate**

1. What is an exchange rate?
2. According to the graph below, how many dollars does it take to buy one euro (according to the latest point on the chart)?
3. How many Euros does it take to buy one dollar?
4. According to the graph below, has the number of dollars it takes to buy one euro generally been trending up or down over whole the period shown?
5. What does the trend tell you about the price of U.S. goods for Europeans?
6. What does the trend tell you about the price of European goods for Americans?

**Hours Worked**

(No questions)

**Housing Starts**

1. Describe the recent level and trend in housing starts.
2. How are housing starts related to interest rates? If monetary policy was conducted to raise interest rates, what do you project would happen to housing starts as a result?
3. When people buy new houses, they also tend to buy refrigerators, furniture and other items. If monetary policy was conducted to raise interest rates, what do you think might happen to housing-related consumer spending as a result?



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**Manufacturing Production**

1. Define the industrial production index.
2. Has the level of industrial production been rising or falling over the last year?
3. What does this indicate about probable trend in the output gap?

**New Orders Capital Goods (Ex Aircraft)**

(No questions)

**Output Per Hour of All Persons**

1. Explain what is meant by unit labor cost. How is it calculated by the Bureau of Labor Statistics?
2. During recessions, what tends to happen to unit labor costs?
3. What do the current measures of unit labor costs say about the likelihood of near term inflation?

**Ratio of Inventories to Sales**

(No questions)

**Real Exports**

(No questions)



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**Retail Sales**

1. Retail sales are an indicator of current consumption spending by households. What does the chart below tell you about the likely growth of GDP in current and future quarters?

**Trade Balance on Goods and Services**

1. Define the trade balance.
2. What does the trade balance tell us about the demand for U.S. produced goods and services?

**University of Michigan: Consumer Sentiment**

1. Why might you be interested in a measure of consumer sentiment?
2. How would you assess current consumer sentiment? On a scale of one to ten, do you think consumers are feeling optimistic or pessimistic?
3. What important economic variables might this affect in the future?

**Yield on 10-Year Treasury Bond**

1. What is a bond?
2. What is the relationship between the price of a bond and its yield or current market interest rate?
3. What does the yield on a long term bond such as the 10-year Treasury bond tell us about expectations about such things as future interest rates and inflation?
4. How can the Federal Reserve influence long term interest rates? When might it choose to do this?