Standards

New York
- 8.2e Progressive reformers sought to address political and social issues at the local, state, and federal levels of government between 1890 and 1920.

New Jersey
- 6.1.8.A.2.b Explain how and why early government structures developed, and determine the impact of these early structures on the evolution of American politics and institutions.
- 6.1.8.C.4.a Analyze the debates involving the National Bank, uniform currency, and tariffs, and determine the extent to which each of these economic tools met the economic challenges facing the new nation.

Connecticut
- CIV 8.1 Explain the origins, functions, and structure of government with reference to the U.S. Constitution, state constitutions, and selected other systems of government.
- CIV 8.2 Analyze ideas and principles contained in the founding documents of the United States, and explain how they influence the social and political system.

NCSS
- Production, Distribution, and Consumption
  - Knowledge: Learners will understand
    - That banks and other financial institutions channel funds from savers to borrowers and investors

C3 Framework
- D2.Eco.10.6-8. Explain the influence of changes in interest rates on borrowing and investing.

Grade Level
6-8

Time Required
120 minutes
Compelling Question
Why do prices matter?

Supporting Questions
How do you take care of your wants and needs?
How do interest rates influence prices?
What happens when prices change quickly?

Objectives
● State the function of prices
● Explain the role of prices in the economy
● Describe interest rates
● Identify characteristics of financial instability
● Create a doctor’s note to diagnose and fix an economy in recession

Materials
● Handout 1: Prices: The Marketplace’s Communication System
● **Reading 1: Prices: The Marketplace’s Communication System**
  (https://www.stlouisfed.org/education/page-one-economics-classroom-edition/prices-the-marketplaces-communication-system)
● Handout 2: Prices in the Galaxy
● Handout 3: An Illustrated Timeline of Prices
● Handout 4: The Interest Rate Lever
● Handout 5: Monetary Policy Review
● Handout 6: The Price of Price Instability
● Handout 7: Economic Med School
Procedures

Supporting Question 1: How do you take care of your wants and needs?

1. Ask students how they decide if they want something. *(Students will likely answer that it makes them happy, etc.)* Ask students if they are able to get everything that they want all the time. *(Answers will vary; some students may be content, while others will likely want more than they are able to get.)* Ask the students who expressed that they want more things why they are not able to get them. *(Some students might say they don’t have the time or the money. Focus students on the idea of prices being a major reason that they cannot get everything they want.)*

2. Distribute **Handout 1: Prices: The Marketplace’s Communication System**. Ask students to answer the question in the box at the top to predict the role of prices in the market.


4. Debrief with students, emphasizing the role that prices play in communicating basic ideas about the availability of resources.

5. Explain to students that changes in prices are an important indicator of economic health. Distribute **Handout 2: Prices in the Galaxy** to students. Divide the class into halves. Explain that one half of the class will read pages 6-9. The other half will read page 6, and pages 13-15. As students read, they should answer the focus questions on the half of the page that corresponds to their reading.

6. Using a think/pair/share activity, pair up students who read different sections. Encourage the students to teach the other group about the pricing situation on their individual planet, and how prices reflect underlying economic conditions.

7. Debrief as a class the focus questions on **Handout 2: Prices in the Galaxy**

8. Distribute **Handout 3: An Illustrated Timeline of Prices**. Remind students that they have seen how prices are an important signaling mechanism for the health of the economy. Explain that students will be creating an illustrated timeline which shows all of the factors that go into determining prices.
9. Ask each student to choose one item that they regularly purchase. On the handout ask students to think of at least 4 steps that go into the production of the product. (Have students think about things such as getting the raw materials, assembling the product, shipping it to their door or to the store, etc.) Ask the students to illustrate each step of the process. Students then write one sentence explaining how each step influences the price of the item.

10. Assess student knowledge by asking students to answer the question at the bottom of Handout 3. (Expected student response: prices are important because they indicate the supply and demand of goods.)

Supporting Question 2: How do interest rates influence prices?

11. Begin this portion of the lesson by reviewing how students responded in Step 10. Review with students the compelling question: Why do prices matter?

12. Ask students to review reasons why they want to buy something. (Students may restate many of the things they said in Step 1.) Emphasize again that prices are a way that consumers decide whether or not to buy something. Ask students what they would do if the price was high. (Students will likely say they would not buy the good.) Ask students what they would do if the price was low. (Students will likely say that they would buy the good.)

13. Explain to students that money also has a price. When you loan someone money, that means you are not able to spend it anymore. To compensate you for loaning the money, interest is charged. Explain to students that interest is the term for the price of money. (Note that while this definition is heavily simplified, it is a useful way to explain the concept to students.)

14. Ask students if the price of money was low, would they be willing to borrow more or less money? (Expected student response: more.) Ask students if the price of money was high, would they be willing to borrow more or less money? (Expected student response: less.) Ask students for a prediction if the interest rate goes up, will there be more or less spending? Write down the student prediction. Then ask students if the interest rate goes down, will there be more or less spending? Write down the student prediction. Ask students to keep these predictions in mind as they move forward.
15. Tell students that the Federal Reserve System is the institution that influences the interest rate. Explain that today students will be reading the comic book to see how the Federal Reserve System adjusts interest rates to influence prices.

16. Assign students to read pages 10-12 of the comic book.

17. Debrief with students about the impact of interest rates, focusing on the reason the Federal Reserve System changes interest rates to conduct monetary policy.
   a. When the Federal Reserve System lowers interest rates, what is likely to happen to borrowing? *(Expected student response: borrowing will go up.)*
   b. When borrowing goes up, what is likely to happen to the economy? *(Expected student response: the economy will speed up because people are spending more money.)*
   c. Ask students to make a prediction: if spending increases, what is likely happen to prices? *(Expected student response: prices will increase.)*
   d. When the Federal Reserve System raises interest rates, what is likely to happen to borrowing? *(Expected student response: borrowing will go down.)*
   e. When borrowing goes down, what is likely to happen to the economy? *(Expected student response: the economy will slow down because people are spending less money.)*
   f. Ask students to make a prediction: if spending decreases, what is likely to happen to prices? *(Expected student response: prices will stay the same or decrease.)*

18. Distribute Handout 4: The Interest Rate Lever. Using the answers from Step 17, ask students to complete the worksheet and adjust the interest rate lever. Remind students what happens to prices and the economy when money is less expensive and what happens when money is more expensive.

19. Conclude the lesson by asking students to complete Handout 5: Monetary Policy Review. *(Note that this sheet is designed to be cut in half.) Students should be able to define interest rates and to explain how changes in the interest rate can help the Federal Reserve System meet its objectives. Ask students to focus on the last question of Handout 5, linking what they have learned to the compelling question. *(Students should respond that by keeping prices stable and as many people as possible employed, the economy is healthier and people are more likely to have trust in the money.*) Debrief with students, collecting answers to each question and putting several on the board to see how similar or different
the answers are. Explain to students that they will be returning to these answers to evaluate their predictions.

**Supporting Question 3: What happens when prices change quickly?**

20. Review with students the importance of monetary policy from the previous lesson. *(Students should respond that monetary policy is conducted by the Federal Reserve System to create a stable economy by raising or lowering interest rates.)* Remind students of the monetary policy procedures (raising or lowering interest rates) they learned in Step 18. Explain that today students will be answering the supporting question: **What happens when prices change quickly?**

21. Distribute Handout 6: The Price of Price Instability. Ask students to read pages 7-8 and 13-14 of the comic. As they read, students make a list of the various problems encountered by citizens during periods of price instability. Students write these problems in the box on the left side of the page. *(Students should note some of the following: citizens struggle to buy what they need, businesses can’t plan for the future, governments can’t get funding.)*

22. Remind students that they previously listed monetary policy solutions (raising or lowering interest rates) on Handout 5. Students will write these solutions in the box on the right side of Handout 6. Next, ask students to draw an arrow and match the list of citizen problems with the monetary policy solution that best solves the problem.

23. Explain to students that problems in an economy need to be diagnosed quickly and efficiently. Tell students that they will all be attending Economic Medical School in order to learn how to diagnose a sick economy.

24. Distribute Handout 7: Economic Med School. Using the list of monetary policy tools in Step 19, ask students to diagnose each of the situations and to provide a solution:

   a. Patient 1: High prices and the economy growing too fast. *(Expected student response: increase the interest rate to decrease inflation and slow down the economy.)*
b. Patient 2: Low inflation and high unemployment. *(Expected student response: decrease the interest rate to spur investment and boost spending.)*

c. Patient 3: Stable inflation and low unemployment. *(This patient is healthy and does not need treatment.)*

25. Debrief the students when all have had time to finish. Students should be able to discuss the ways in which monetary policy can help reduce periods of economic sickness.

**Assessment**

26. Remind students of the initial compelling question for the lesson: **Why do prices matter?**

27. Ask students to re-read pages 18 to 21 about the explorers as they travel the galaxy. Students should imagine that they are now economic doctors who are planning to diagnose other planets’ economic sickness.

28. Students work in groups to create a “doctor’s note” about signs and symptoms experienced by planets that are sick. Some possible signs and symptoms:

   a. Prices and unemployment

   b. Production of goods and services

   c. Financial services and the financial sector

29. After diagnosing the symptoms, students write a “prescription” for the problem by diagnosing the correct monetary policy response.
Prices: The Marketplace’s Communication System

WHAT IS THE PURPOSE OF A PRICE?

1. What is meant by “the dual role of prices”?

2. How is the equilibrium price of a good or service determined?

3. What happens if there is too much or too little of a good?

4. Why might government get involved in setting prices?
Prices in the Galaxy

Pages 6-9

WHAT IS HAPPENING ON YOUR PLANET?

HOW ARE THE CITIZENS SUFFERING?

WHAT MIGHT BE ONE WAY YOU SET OUT TO SOLVE THE PROBLEM?

WHAT IS INFLATION? WHY IS IT A PROBLEM?

Pages 6, 13-15

WHAT IS HAPPENING ON YOUR PLANET?

HOW ARE THE CITIZENS SUFFERING?

WHAT MIGHT BE ONE WAY YOU SET OUT TO SOLVE THE PROBLEM?

WHAT IS INFLATION? WHY IS IT A PROBLEM?
An Illustrated Timeline of Prices

What goes into the price you pay? As you’ve seen, many factors do! Now is the time for you to track the prices of your favorite goods.

Pick an item that you are interested in or purchase regularly. In the boxes below, illustrate four different phases of how the item gets to your house. Think about raw materials, production, delivery, and more!

At each arrow, write one sentence explaining how this step in the process can influence the price.

Why are prices important?
The Interest Rate Lever

As you have seen, changes in the interest rate can change consumer behavior. Glix needs your help!

Using your knowledge of economics and pages 10-12 of the comic book, read each scenario below. Draw an up or down arrow on the correct side of the interest rate lever to indicate what should happen to interest rates and the amount of lending and borrowing.

Flora: “Inflation seems to be a real concern. Prices are going up and businesses can’t predict the future. What should I do?”

Flora: “Folks still can’t seem to afford things even though prices are going down because money is extremely scarce. What should I do?”

Overall, what is the relationship between changing interest rates and the expansion of money and credit in the economy?
Monetary Policy Review

What are interest rates?

What happens when the Federal Reserve System raises interest rates?

What happens when the Federal Reserve System lowers interest rates?

How does the Federal Reserve System use interest rates to keep prices stable?

What is the relationship between monetary policy and financial stability?
The Price of Price Instability

Prices are extremely important to consumers, and communicate key ideas about the health of the economy.

In the space below, list the problems encountered by citizens due to price instability. Then, draw an arrow to the second box and suggest a monetary policy solution to the problem.
Economic Med School

Patient 1

“Looking at what’s happened, I seem to have extremely high prices and so many people are spending that the economy is growing way too fast. What do you diagnose? What’s the cure?”

Patient 2

“I just woke up feeling like prices were really low. But when I checked my unemployment rate it was sky high. It was really concerning so I went and got checked in right away. What do you diagnose? What’s the cure?”

Patient 3

“Well, my prices seem really stable, at least from what I can see. Unemployment is pretty low. I guess it could be better but all around I’d say it’s in the good range. What do you diagnose? What’s the cure?”