Cash Course | Grades 6+

The Great Federal Reserve Mystery | Worksheet

Matching

Match the definition in Column A with the term in Column B.

Column A

__________ Fed actions controlling money and credit supply.
__________ Fed buying or selling government securities.
__________ Financial assets like Treasury bonds bought or sold.
__________ U.S. central bank managing money supply and regulations.
__________ Banks' required reserves affecting lending ability.
__________ Interest banks charge each other, influenced by Fed.

Column B

a. Federal Reserve
b. Monetary Policy
c. Federal Funds Rate
d. Reserve Requirement
e. Open Market Operations
f. Securities

Multiple Choice

1. **What major event led to the creation of the Federal Reserve in 191?**
    a. The collapse of the gold standard.
    b. The Great Depression.
    c. The Knickerbocker Crisis and bank failures.
    d. The War of 1812 and economic instability.
2. **What happens when the Federal Reserve raises the Federal Funds Rate?**
    a. Borrowing becomes cheaper, stimulating business expansion.
    b. Banks lend more money, increasing economic activity.
    c. Borrowing becomes more expensive, slowing economic activity.
    d. The government lowers taxes to offset higher interest rates.
3. **A major drawback of the Federal Reserve's policies is that they can sometimes...**
    a. Create permanent economic stability with no recessions.
    b. Replace private banks as the primary source of loans.
    c. Control individual bank policies without oversight.
    d. Cause unintended effects, like altering the money supply.
4. **Why does the FOMC have rotating members?**
    a. To allow all regional banks to have influence over time.
    b. To prevent conflicts of interest with commercial banks.
    c. To ensure Congress can approve every monetary decision.
    d. To keep the Fed's policies secret from the public.

Application

Imagine you are an economic advisor to the Federal Reserve. The economy is facing instability, and the Fed must decide how to adjust the money supply.

- Which tools (Federal Funds Rate, Reserve Requirements, Open Market Operations) should the Fed use to increase or decrease the money supply?
- How would these changes affect businesses and consumers?
- Do you think the Federal Reserve's actions always have the intended effects? Why or why not?

Scan to watch episode:

The Great Federal Reserve Mystery | Answer Key

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f. Financial assets like Treasury bonds bought or sold.
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Sample Answer Key:

If I were an economic advisor to the Federal Reserve, I would recommend **raising the Federal Funds Rate** to reduce the money supply. Right now, there is too much money circulating, and businesses and consumers are borrowing and spending too much. By raising the rate, the Fed makes it more expensive for banks to borrow money, which means **interest rates on loans, credit cards, and mortgages will go up**. This will encourage people to **spend less and save more**, helping slow down the economy and stabilize prices.

This change would affect businesses and consumers in different ways. **Businesses might slow down expansion** because it would be harder to get cheap loans. They may hire fewer workers or delay opening new locations. For consumers, it would mean **higher costs on loans and credit cards**, so they might spend less on big purchases like homes or cars.

Even though this policy could help control the money supply, **the Fed's actions don't always work perfectly**. If they raise rates too much, it could **slow the economy too much** and cause job losses. On the other hand, if they don't act quickly enough, **inflation could get worse**. The Fed tries to manage the money supply, but there are always risks involved.

Guidance for Grading

- [ ] **Monetary Policy Tools**: The student should correctly identify one Federal Reserve tool (Federal Funds Rate, Reserve Requirement, or Open Market Operations) and explain how the tool impacts the money supply. A strong response will connect this action to how it changes lending, borrowing, and interest rates.
- [ ] **Impact on Businesses**: The response should show an understanding that changing the money supply affects business activity—for example, higher interest rates make borrowing more expensive, which can slow business growth and hiring. A strong answer will explain how businesses might adjust their spending, investment, or expansion plans in response.
- [ ] **Impact on Consumers**: The student should describe how changes in the money supply affect everyday people. This could include higher or lower loan and credit card interest rates, changes in spending and saving habits, or the affordability of big purchases like homes and cars.
- [ ] **Balancing Inflation Control and Economic Stability**: A strong response will recognize that while the Fed tries to stabilize the economy, its actions have risks. The student should show awareness that adjusting the money supply too much in either direction can lead to unintended effects, like slowing growth too much or encouraging risky borrowing.