The Great Federal Reserve Mystery | Lesson Plan

How does the Federal Reserve influence the economy, and is it an effective system for financial stability?

Students will understand the role of the Federal Reserve as the central bank of the United States, including its structure, tools, and decision-making process, and evaluate its effectiveness in managing the money supply and stabilizing the economy.

Learning Objectives:

- Describe the origins of the Federal Reserve and the historical events that led to its creation, including the Panic of 1907.
- Explain the structure of the Federal Reserve System, including the roles of the Board of Governors, Federal Reserve Banks, and the Federal Open Market Committee (FOMC).
- Analyze the three main tools of the Federal Reserve—federal funds rate, reserve requirements, and open market operations—and how they influence the economy.
- Evaluate the effectiveness of the Federal Reserve in stabilizing the economy, considering both its benefits and potential drawbacks.
- Apply knowledge of Federal Reserve policies by examining real-world economic scenarios and determining how changes in interest rates, reserve requirements, or open market operations would impact inflation, employment, and economic growth.

Key Vocabulary:

- **Federal Reserve**: The central bank of the United States, responsible for managing the money supply and overseeing banks.
- **Monetary Policy**: The Federal Reserve's actions to control the supply of money and credit in the economy.
- **Federal Funds Rate**: The interest rate banks charge each other for overnight loans, influenced by the Fed to manage the money supply.
- **Reserve Requirement**: The percentage of deposits that banks must keep in reserve rather than lend out, controlled by the Fed to influence lending and money circulation.
- **Open Market Operations**: Actions by the Fed to buy or sell U.S. government securities to adjust the money supply and influence interest rates.
- **Securities**: Financial assets, such as Treasury bonds, that the Federal Reserve buys or sells to influence the banking system.

Educational Standards: CCRA.R.7, CCRA.R.10, CCRA.W.2, CCRA.W.4, CCRA.W.7, CCRA.SL.1, CCRA.SL.2, CCRA.L.6

Academic Subject Areas: Economics, Government & Civics, History

Scan to watch episode:

What You'll Need

- Video: *Ca$h Cour$e: The Great Federal Reserve Mystery* (Watch Here)
- Worksheet: *Ca$h Cour$e: The Great Federal Reserve Mystery* (Click Here)
- Classroom whiteboard and dry-erase markers (or use a technology solution if available).

Lesson Plan (50 mins.)

Warm-Up: (10 mins.)

1. Begin by writing ***Federal Reserve*** and ***Monetary Policy*** on the board. Ask students if they have heard of these terms before and what they think they mean. Keep responses brief, and let them know that today's lesson will explore these ideas.
2. Set up the lesson with the following scenario: At your school, students can earn Otto Bucks as rewards for good behavior, hard work, or helping out. These Otto Bucks can be used to buy snacks at the school store. But lately, something strange has been happening...
   - Scenario: Too Much Money in the System: The school started handing out tons of Otto Bucks to reward students, but now everyone has a huge stash. When students go to the store, they all want to buy snacks at the same time. Because there is so much money in everyone's hands, students are buying more than usual, and the store starts running low on supplies. The school store raises the prices in order to slow the process of things running out.
   - Discussion Question: What's happening here? Why do you think students are spending more? What problem is the school store trying to solve by raising prices? *(Guide students to recognize that too much money in circulation causes issues for the school store as well as the customers.)*
3. Connect to the Federal Reserve by explaining the following:
   - Just like the school needs to manage how many Otto Bucks are in circulation to keep the campus economy balanced, the Federal Reserve manages the money supply for the U.S. economy. When too much or too little money is in circulation, it can create problems, so the Fed adjusts the **supply** using **monetary policy** tools.
   - Add these three words under Monetary Policy on the board: Federal Funds Rate, Reserve Requirement, Open Market Operations. Explain that the Fed uses these tools to control the supply of money in the economy:
     - **Federal Funds Rate**: Interest rate for banks. *(This is the rate banks charge each other for short-term loans, not people. However, it influences other interest rates in the economy. If the Fed raises the rate, borrowing becomes more expensive, so less money circulates. If the Fed lowers the rate, borrowing becomes cheaper, so more money circulates. This can affect interest rates on mortgages, car loans, credit cards, and savings accounts.)*
     - **Reserve Requirement**: Amount of money banks must have on hand. *(The Fed sets a minimum amount of money banks must keep in reserve instead of lending. If the Fed raises this amount, banks lend less, reducing the*

money supply. If the Fed lowers it, banks can lend more, increasing the money supply.)*
    - **Open Market Operations**: Buying and selling securities. (The Fed buys or sells securities, such as Treasury bonds, to adjust the money supply. When the Fed buys securities, it adds money into the economy, encouraging borrowing and spending. When the Fed sells securities, it removes money from circulation, slowing borrowing and spending.)
4. Introduce the essential question: *How does the Federal Reserve influence the economy, and is it effective at controlling inflation?*
5. Explain that the lesson will explore this question in depth.

Watch and Discuss: (20 mins.)

1. Show the *Ca$h Cour$e: The Great Federal Reserve Mystery* video to the class.
2. Pause the video at strategic points to facilitate discussion and reflection, or watch the video then discuss the following:
    - Understanding The Federal Reserve's Role:
        - *Why was the Federal Reserve created?*
        - Clarify: The Fed was created in 1913 after financial panics (like the Panic of 1907) to help stabilize the banking system and prevent future crises.
    - The Structure of the Federal Reserve:
        - *What are the three main parts of the Federal Reserve?*
        - Clarify: They are the Board of Governors (who oversee the Fed and set policy.) The Federal Reserve Banks (12 banks that operate regionally.) And the Federal Open Market Committee (FOMC) (Which makes key monetary policy decisions.)
    - The Fed's Tools: Monetary Policy
        - What are the three main tools the Fed uses to adjust the money supply?
        - Clarify: The Fed uses the Federal Funds Rate, Reserve requirements, and open market operations to increase or decrease the money supply in circulation.
    - Is the Federal Reserve Effective?
        - Do you think the Federal Reserve makes the right decisions? Why or why not? (Ask students to weigh in on the effectiveness of the Fed).
        - Clarify: The Fed tries to stabilize the economy, but its actions don't always have the intended effects. It can stimulate economic growth but also cause market distortions if it overcorrects.
3. Summarize the key takeaways from the video using the whiteboard:
    - The Fed was created to stabilize banks after financial panics.
    - It has three main parts: Board of Governors, 12 Regional Banks, and FOMC.
    - The Fed controls the money supply using three tools: Federal Funds Rate, Reserve Requirement, and Open Market Operations.

Wrap-Up: (20 mins.)

1. Distribute worksheets. Have students work individually or in small groups to apply their understanding of the Federal Reserve.
2. Facilitate a brief class discussion:
   - Have students share key insights from their worksheet responses.
   - Review answers together, clarifying any misunderstandings.
   - Collect worksheets to assess understanding (optional formative assessment).
3. Closing reflection: Emphasize that the Federal Reserve plays a major role in managing the economy, but monetary policy isn't perfect—it involves trade-offs, and its effects take time.
4. Encourage further exploration and state the following: "Next time you hear about inflation or interest rates in the news, think about how the Federal Reserve is involved. What decisions might they be making, and how could those decisions affect you?"

Extension Activities (Optional):

- Federal Reserve in the News: Have students find a recent news article about the Federal Reserve's decisions on interest rates, inflation, or economic policy.
- Inflation Detective: Have students track the price of a common item (milk, gas, a favorite snack) over time and analyze how inflation affects purchasing power.
- Be the Fed: Create a classroom simulation where students act as the Federal Reserve and must decide whether to raise, lower, or keep interest rates the same based on different economic conditions.

Don't have time for the full lesson? Quick Activity (10-15 mins.)

Distribute the worksheet and allow students to complete it while they follow along with the video. Or, have students watch the video at home and use the worksheet as a quick quiz the next day in class.