The Money Market: The Real Boss | Lesson Plan

How does the money market affect the whole economy?

Students will understand that the money market affects the entire economy by determining interest rates, which in turn influence borrowing, investment, consumer spending, and overall economic growth.

Learning Objectives:

- Define key terms related to the money market, including money supply, demand for loans, equilibrium, interest rate, expansionary policy, and contractionary policy.
- Identify how changes in money supply and demand for borrowing affect the equilibrium interest rate in the money market.
- Distinguish between expansionary and contractionary monetary policy by describing the direction each one moves the money supply and its typical effect on interest rates.
- Explain the cause-and-effect chain connecting interest rates to borrowing and investment, and how that can influence GDP/output and price levels.
- Analyze a real-world scenario to predict how a change in Federal Reserve policy could affect borrowing costs, business decisions, and consumer spending.

Key Vocabulary:

- **Supply (also called 'Quantity'):** The amount of money in circulation throughout the economy, including what people can earn, spend, and borrow from their bank.
- **Demand**: The amount of money people and businesses want to borrow.
- **Money Market Equilibrium:** The interest rate—the cost of borrowing—at which the supply of money available to lend equals the demand for borrowing money.
- **Expansionary Policy**: Federal Reserve actions intended to increase the money supply and stimulate borrowing/spending.
- **Contractionary Policy:** Federal Reserve actions intended to decrease the money supply and slow borrowing/spending (often to curb inflation).
- **Reserve Requirement:** The amount a bank must have in cash reserves.

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,

What You'll Need

- Video: *Ca$h Cour$e: The Money Market–The Real Boss* (Watch Here)
- Worksheet: *Ca$h Cour$e: The Money Market–The Real Boss* (Click Here)
- Classroom whiteboard and dry-erase markers (or use a technology solution if available).

Scan to watch episode:

Lesson Plan (50 mins.)

Warm-Up and Instruction: (20 mins.)

1. Begin with a quick analogy: Think about vintage T-shirts. A few years ago, you could find them at the thrift store for cheap because not many people were hunting for them. Then the trend hit—more people wanted vintage tees, so the good ones became harder to find at thrift stores. Now they're a high-demand item, and prices are higher on resale sites. That's supply and demand in action: when demand rises and supply stays limited, price goes up. The money market works the same way—except the 'price' is the interest rate.
2. Ask the class: Why were vintage tees cheap at the thrift store a few years ago? What changed when the trend hit? (Did the supply increase, or did the demand increase?) Where did the shirts move to once the demand rose?
3. Explain to students: Just like there's a market for T-shirts, there's also a market for money. Banks and lenders "sell" access to money through loans, and people and businesses "buy" that access when they borrow. In the money market, the price isn't a sticker tag—it's the **interest rate**, or **what it costs** to borrow money. Today we'll learn how the supply of money and the demand to borrow determine that interest rate, and how changes in it ripple through the whole economy.
4. Introduce the following key terms on the board, and provide the definition and an example for students (ask students to write the definitions down in their notebooks):
    - **Supply (also called "Quantity"):** The total amount of money available in the economy for people and businesses to earn, spend, or borrow.
      Example: If the money supply increases, banks have more funds available to lend, which often pushes interest rates down.
    - **Demand:** How much money people and businesses want to borrow.
      Example: When more people apply for car loans or businesses seek loans to expand, demand for borrowing rises.
    - **Money Market Equilibrium:** The interest rate (the cost of borrowing) at which the supply of money available to lend equals the demand for borrowing money.
      Example: If lenders and borrowers meet at a 6% interest rate where the amount people want to borrow matches the amount available to lend, the market is at equilibrium.
    - **Expansionary Policy:** Federal Reserve actions intended to increase the money supply and encourage borrowing and spending.
      Example: Lowering reserve requirements can allow banks to lend more money, increasing the money supply and lowering interest rates.
    - **Contractionary Policy:** Federal Reserve actions intended to decrease the money supply and slow borrowing and spending (often to reduce inflation).
      Example: Increasing reserve requirements can reduce bank lending, shrinking the money supply and raising interest rates.
    - **Reserve Requirement:** The amount of money a bank must keep on hand as reserves instead of lending out.

Example: If the reserve requirement is 10%, a bank must hold $10 for every $100 in deposits and can lend out the rest.

5. Have students come up with a few examples of their own to test understanding.
6. Transition to today's enduring question and explain that this question will help guide their understanding of today's lesson: How does the money market affect the whole economy?
7. Once students are familiar with the basic terms and ideas, explain that they'll now watch a short video that brings these concepts to life. The video uses real-world examples and visual storytelling to show how changes in the money supply can raise or lower interest rates, which then affect borrowing, investment, and the overall economy.
8. Let students know they'll be expected to discuss and apply what they see, so they should watch carefully for moments that connect to the vocabulary they just reviewed.

<u>Watch and Discuss</u>: (20 mins.)

1. Show the *Ca$h Cour$e: The Money Market: The Real Boss* video to the class.
2. Note to teachers: watch straight through or pause at key moments if you want to clarify supply/demand in the money market and other concepts introduced in the video.
3. After the video, ask the following discussion and comprehension questions:
    - What is the money market?
    - In the money market, what counts as supply and what counts as demand?
    - What is the price of money, and why does it matter?
    - What is one example of an expansionary policy the Federal Reserve can use?
    - What is one example of a contractionary policy, and when might it be used?
    - Cause-and-effect: If the money supply increases, what usually happens to interest rates and then borrowing/investing?
    - Real-world check: How could rising interest rates affect a small business trying to expand?
4. Give each student the "Cash Course: The Money Market: The Real Boss" Worksheet and allow them to complete it independently or in pairs.

<u>Wrap-Up</u>: (20 mins.)

1. If students haven't already, allow them to finish the worksheets. Use this time to circulate, answer questions, and check for understanding.
2. Review and Reflect (Optional): Go over selected questions from the worksheet together as a class. Allow students to share their reasoning for the application question.
3. Wrap-Up Prompt (Board or Exit Ticket)
    - "The money market affects the whole economy because ______."
    - Students can write a quick response on an index card or notebook, or submit it at the bottom of their worksheet.
4. Collect Worksheets: Use the completed worksheet as a way to assess comprehension and mastery of the lesson objectives.

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.