

LESSON NINETEEN

Core Learning Goal: 4

The students will demonstrate an understanding of the historical development and current status of economic principles, institutions, and processes needed to be effective citizens, consumers, and workers.

Expectation: 1

The student will demonstrate an understanding of economic principles, institutions, and processes required to formulate government policy.

Indicator 4.1.4

The student will evaluate the effectiveness of current monetary and fiscal policy on promoting full employment, price stability, and economic performance.

Assessment Limits:

- ? *Business cycle, **monetary policy (Federal Reserve System increasing/decreasing the money supply)** and fiscal policy, (Congress and President increasing/decreasing taxes and/or spending) and their effect on economic performance, full employment, and price stability.*
- ? *Measures of economic performance include Gross Domestic Product (GDP), Consumer Price Index (CPI) and unemployment rate.*
- ? ***Tools of the Federal Reserve System (FED) include the reserve requirement, interest rates, and open-market operations (buying and selling of government securities).***

Overview:

This is an introductory lesson on monetary policies. A basic economics textbook might provide more information than a government text.

Lesson Objectives:

Students will define vocabulary terms related to monetary policies.
Students will apply monetary tools to solve economic scenarios.

Materials:

Student Handout: **Monetary Policy Vocabulary**
Government/economics textbooks
Student Handout: **Monetary Policy**
Teacher Resource: **Monetary Diagram**
Overhead Transparency: **Economic Problems**
Group Handout: **Economic Problem Solving**
Useful website:

www.federalreserve.gov/policy.htm

Procedures:

1. Ask students: “What have you done this week to help our economy?” Direct responses toward how consumer spending helps the economy.
2. Distribute the handout **Monetary Policy Vocabulary** and have students use texts to define the terms. Review their answers.
3. Distribute the handout **Monetary Policy** and lead a discussion on the process. Help students complete the diagram if their text does not contain sufficient information (see **Teacher Resource** diagram).
4. Tell students that they will assume the role of economic advisors to the President. Divide the class into groups and assign each group one economic problem from a transparency of **Economic Problems**. Distribute a copy of handout **Economic Problem Solving** to each group and review the directions.
5. Have each group report on their economic problem and the tools that the group recommends to solve the problem. Instruct all students to take notes during this problem-solving discussion.

Assessment of Indicator:

Have students answer this Brief Constructed Response item:

The money supply has increased by five percent over the past year. People have money to save and money to spend. Interest rates on personal and business loans are low. Prices, however, are increasing at an alarming rate.

- ? Describe actions the Federal Reserve can take to stabilize the economy.
- ? Which action would be the most effective? Explain.
- ? Include examples and details to support your answer.

Use the Social Studies Rubric to score student responses.

*This lesson was adapted from the Government curriculum
of Cecil County Public Schools*

Monetary Policy Vocabulary

Directions:

Use the textbook to define these economic terms:

1. Interest rates-

2. Monetary Policy-

3. Deficit-

4. The FED (Federal Reserve System)-

5. Reserve requirement-

6. Open market operations-

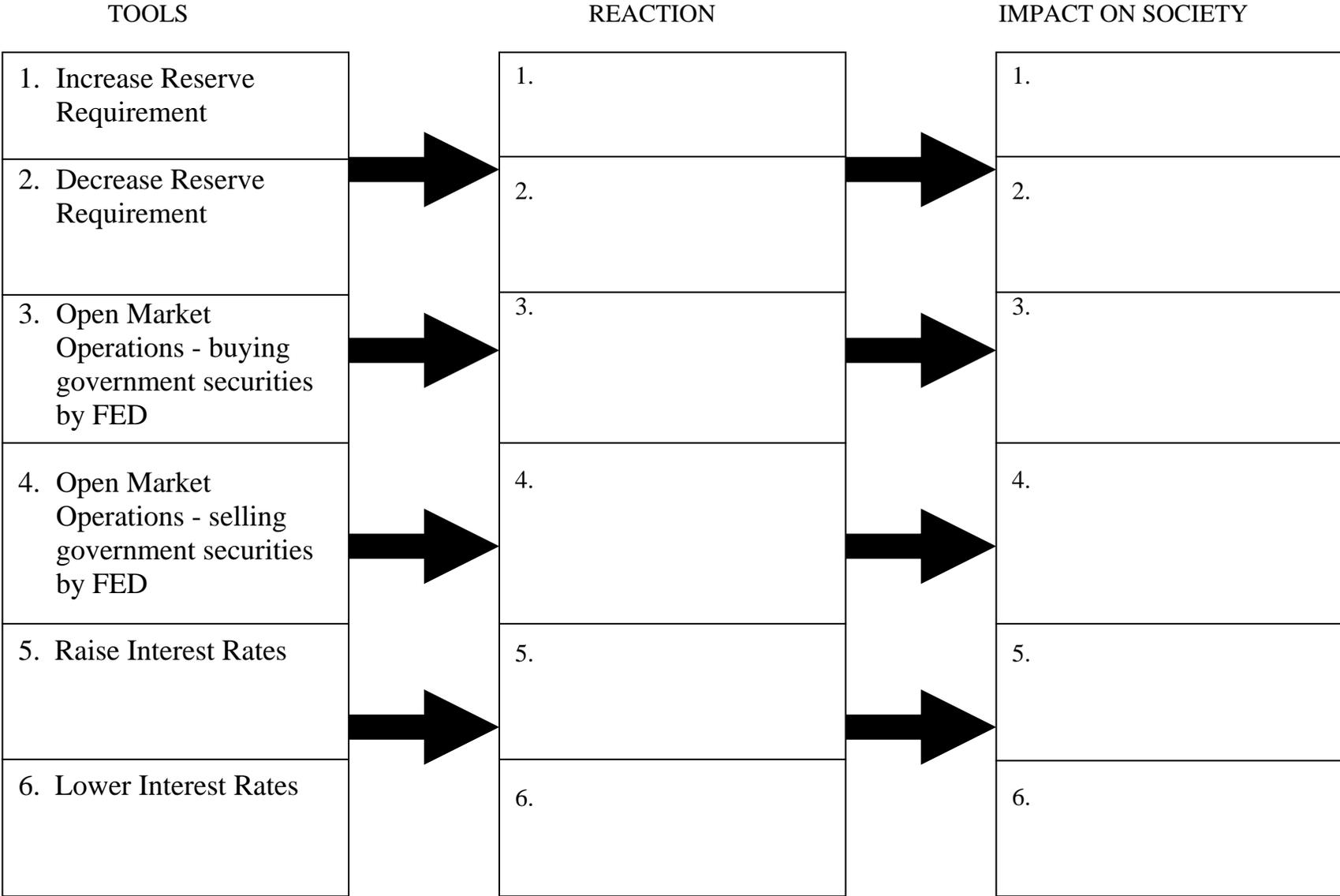
7. Government securities-

8. Stimulating the economy-

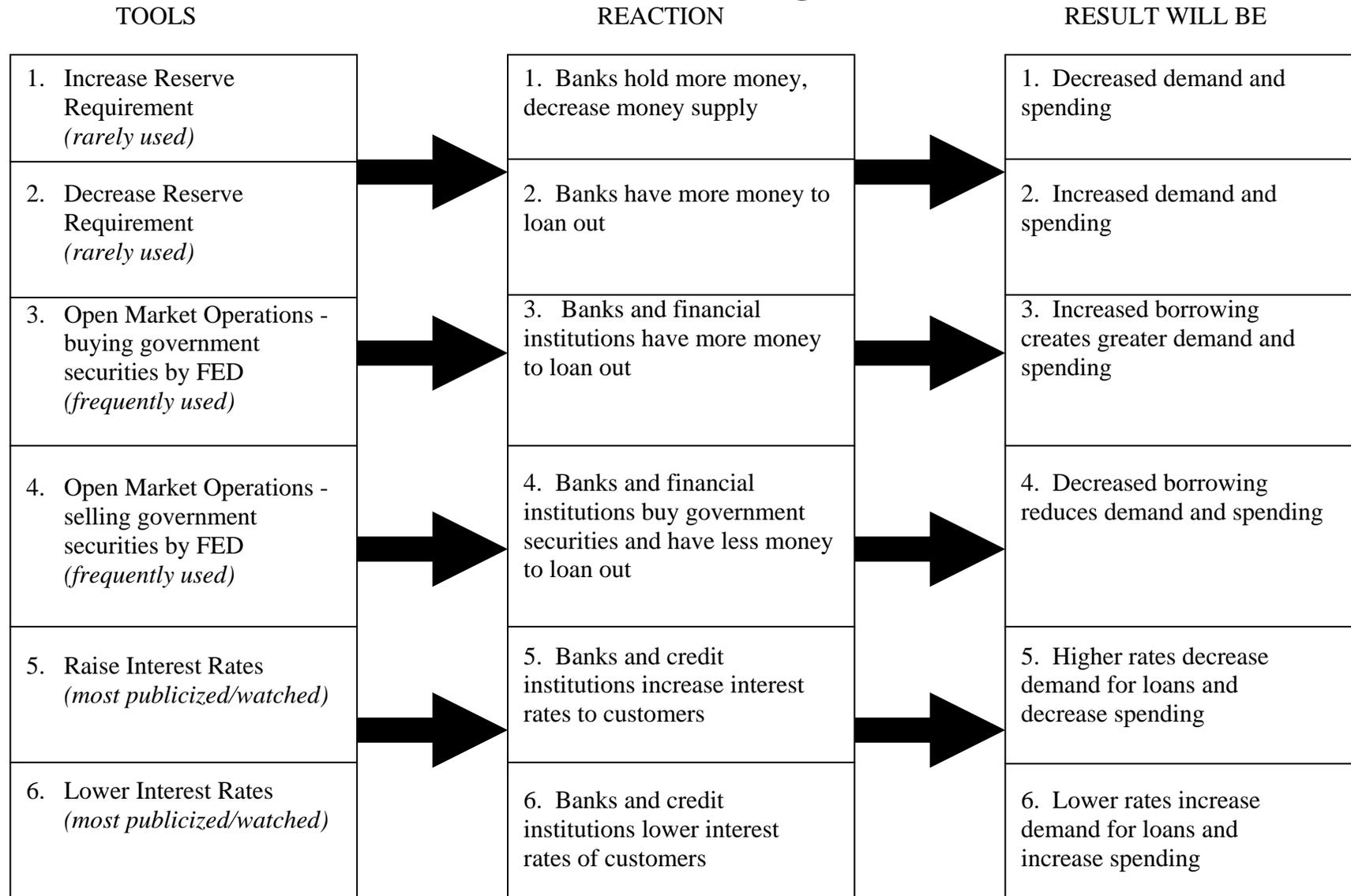
ECONOMIC PROBLEMS

- 1. The economy is stagnant (inactive). Consumer and business spending is declining. There is a huge government deficit.**
- 2. Inflation grips the U.S. Consumer prices have gone up. Unemployment is virtually nonexistent. Factories are operating at full capacity.**
- 3. The worst of times is upon the U.S. One out of every three Americans is unemployed. The output of goods and services has fallen over the past year. Factories are closing every day and laying off workers.**
- 4. The country is experiencing a period of high unemployment. Production is down and people are spending very little money. Personal debt and business debt is extremely high due to the tremendous borrowing over the past decade.**
- 5. Unemployment is improving and inflation is modest. The economy as a whole, however, shows very few signs of growth.**
- 6. Recent economic trends have caused consumers to doubt the stability of the stock market. The doubt is causing many people to sell their stocks and to cause the stock market to fall.**

MONETARY POLICY



Teacher Resource Diagram



ECONOMIC PROBLEM-SOLVING MODEL

Directions: Your group will be assigned to solve one economic problem based on your knowledge of monetary policies. Read the problem carefully and as a group use the economic problem-solving model below to solve the problem:

1. Choose a recorder who will record the information and ideas on the chart.
2. Choose a reporter (or two) who will report your group's findings to the class.
3. In your group, follow the steps outlined in the chart and make recommendations in terms of monetary policy.
Be specific about the tools you would use to solve the problem.
4. You may use any class notes and your readings to help you with this activity.
5. The rest of the class will respond to your recommendations.

Statement of economic problem:	Why is this a problem?	What monetary tools should the FED use to help this problem?	How effective do you think is the FED's policy in solving this economic problem? Support your answer.