

An Introduction to the Federal Reserve

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Lesson Plan Contest 2007

Fourth Place

LESSON DESCRIPTION

1. The students view a DVD, titled *In Plain English: Making Sense of the Federal Reserve*.
2. They take notes based on the debriefing after the DVD viewing.
3. Then they view a PowerPoint presentation and participate in a discussion that follows, again taking notes.
4. They work in groups to review the information.
5. Finally, students individually select a home-learning research project related to the Federal Reserve.

AGE LEVEL

Secondary level (16–18 years old)

CONCEPTS

- The Federal Reserve System
- The Board of Governors
- Federal Reserve Districts
- Federal Open Market Committee (FOMC)
- Monetary policy
- Discount rate
- Reserve requirement
- Open market operations
- Buying and selling government securities

NATIONAL CONTENT STANDARDS IN ECONOMICS

Standard 20—Monetary and Fiscal Policy

- **Benchmark 7 for 12th grade:** In the long-run, inflation results from increases in a nation's money supply that exceeds increases in its output of goods and services.
- **Benchmark 8 for 12th grade:** Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment, and prices in the economy:
 1. by inducing changes in interest rates charged for credit, and

2. by affecting the levels of personal and business investment spending.

Benchmark 9 for 12th grade: The major monetary policy tool that the Federal Reserve System uses is open market purchases or sales of government securities. Other policy tools used by the Federal Reserve System include increasing or decreasing the discount rate charged on loans it makes to commercial banks and raising or lowering reserve requirements for commercial banks.

FLORIDA SUNSHINE STANDARDS CORRELATIONS:

- **Critical Thinking:** Acquiring performance assessment techniques and strategies that measure higher-order thinking skills in students; students will demonstrate ability to think creatively.
- **Technology:** Using appropriate technology in the teaching and learning process.
- **Social Studies (SS.D.2.4):** Understand how the monetary policies reinforce or offset each other and how they affect levels of economic activity, and the money supply of the country.
- **Language Arts (LA.C.2.4):** Determine main concept and supporting details in order to analyze and evaluate non-print media messages.
- **FEAP — Assessment:** The teacher collects data gathered from a variety of sources.

OBJECTIVES

Students will:

- Understand how the Federal Reserve System is organized.
- Explain the three main responsibilities of the Federal Reserve System:
 1. conducting monetary policy,
 2. providing financial services, and
 3. supervising and regulating banks.
- List the tools the Federal Reserve uses to control the money supply.
- Learn how the Federal Open Market Committee operates.

- Become motivated to do further research on the Federal Reserve.

TIME REQUIRED

Two 50-minute classes

MATERIALS

- ***Too Much, Too Little***, a comic book from the Federal Reserve Bank of New York.
- ***In Plain English: Making Sense of the Federal Reserve***, a DVD from the Federal Reserve Bank of St. Louis.
- ***Assorted additional pamphlets and brochures*** from the Federal Reserve.
Note: The above publications can be selected and ordered from the Federal Reserve, free of charge, by going online to: http://www.stlouisfed.org/education/resourceools/search_resource.cfm
- ***Shredded currency***: Request classroom sets from the Atlanta Federal Reserve Bank at <http://www.frbatlanta.org/contacts.cfm> or from the Federal Reserve bank in your district
- ***“The Federal Reserve Banking System,”*** a PowerPoint presentation.
Note: If you do not have PowerPoint on your computer, you can use “PowerPoint Viewer,” which you can download free of charge at: <http://www.microsoft.com/downloads/details.aspx?familyid=048DC840-14E1-467D-8DCA-19D2A8FD7485&displaylang=en>
- **Visual 1:** *Structure of the Fed*
- **Visual 2:** *Functions of the Fed*
- **Visual 3:** *Monetary Policy Tools*
- **Activity 1:** *Script for “The Federal Reserve Banking System” PowerPoint Presentation*
- **Activity 2:** *Assessment*
- **Activity 3:** *Assessment (Answers)*
- DVD player and projector
- Overhead projector for transparencies
- Notebooks, paper, and pens for student note taking
- Computers (optional)

PROCEDURE

Introduction

1. To prepare students for this lesson, distribute the comic book, *Too Much, Too Little*, making this an introductory reading assignment for homework.
2. The next day, ask students the following questions, engaging them in an interactive discussion as they answer. Accept their ideas in the discussion.
 - a. Have you ever been inside a bank before?
 - b. Have you ever thought about how banks transfer funds to other banks?
 - c. Who do you think regulates banks?
 - d. Why do you think it is important to have banks?
 - e. Why do you think the Federal Reserve wants to put currency into circulation that cannot be forged or duplicated?

DVD: *In Plain English*, and Discussion

3. Show students the DVD, *In Plain English: Making Sense of the Federal Reserve*.
4. After viewing the DVD, ask the questions below. Have students take notes during the debriefing and discussion. Monitor the students as they take comprehensive notes.
 - a. When was the Federal Reserve System created? ***(In 1913, when Congress passed the Federal Reserve Act)***
 - b. Why was the Fed established? ***(There were many problems with bank failures and bank panics across the nation at that time.)***
 - c. What are the three divisions of the Federal Reserve System? ***(The Board of Governors, the Federal Open Market Committee, also known as the FOMC, and the regional Federal Reserve Banks)***
 - d. How many Federal Reserve Banks are there? ***(12)***

- e. Which division of the Fed is responsible for conducting monetary policy? ***(The Federal Open Market Committee)***
 - f. How many members are there on the Board of Governors? ***(Seven)***
 - g. Who are the members of the Federal Open Market Committee? ***(The seven members of the Board of Governors and the presidents of five of the Federal Reserve Banks)***
5. Tell students that they will be talking about other things they saw on the video later, after watching a PowerPoint Presentation.
 6. If students need more information and learning practice, print out and use some of the reproducible bonus activities for the *In Plain English* video, to be found at the following website:
<http://www.stlouisfed.org/publications/pleng/activities.htm> These activities include puzzles, games, and question sheets, which have accompanying answers.
- PowerPoint Presentation and Discussion**
7. Show students the PowerPoint presentation, "The Federal Reserve Banking System" and provide information on the Federal Reserve while students view it. Use *Activity 1: Script for "The Federal Reserve Banking System" PowerPoint Presentation* to help keep up with the presentation
 8. Again have students take notes during the follow-up discussion, and monitor them as they take notes. Point out specific vocabulary terms and concepts for students to write down. Collect the notes to grade at the end of the discussion, but return the notes to students for them to study prior to the test.
 9. Ask students the following questions, as outlined in Step 10 below, to involve them in the discussion from both the video and the PowerPoint presentation.
 10. Display a transparency from *Visual 1: Structure of the Fed*. Uncover the information, one section at a time, as questions are asked about the divisions of the Federal Reserve:
 - a. List the cities where the 12 regional Federal Reserve banks are located. ***(Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco)*** Have students locate these cities on a map.
 - b. Why are the 12 regional Federal Reserve banks considered decentralized components of the Fed's structure? ***(The reserve banks are located in 12 major cities across the nation, and each one has its own district. These banks are more concerned with the economies in their own districts.)***
 - c. Who selects the seven members of the Board of Governors? ***(They are appointed by the President of the United States and approved by the Senate.)***
 - d. How long are the terms of the Governors? ***(The Governors serve 14-year terms that are staggered.)***
 - e. Explain the composition of the FOMC. ***(The voting members of the FOMC include the seven members of the Board of Governors, the president of the New York Fed, and four other regional Federal Reserve Bank presidents, whose terms rotate annually. The remaining seven bank presidents participate fully as non-voting members. The FOMC is the policy-making body for the Fed.)***
 - f. How many times does the FOMC meet each year? ***(Eight)***
 - g. How is the Federal Reserve independent from other branches of government? ***(The Federal Reserve is not dependent on any other branch of government for its financial support. It is self-sufficient because of the income that it receives from the financial services that it provides, and from the interest on the securities that it holds.)***
 11. Display a transparency from *Visual 2: Functions of the Fed*. Uncover the

information, one section at a time as questions are asked about the responsibilities of the Federal Reserve:

- a. What are the functions of the Federal Reserve? *(Supervising and regulating commercial banks, providing services to financial institutions, and conducting monetary policy)*
 - b. What is the relationship between the Fed and the commercial banks across the nation? *(The Board of Governors regulates the banks and the regional Federal Reserve Banks supervise the banks. The Fed also provides financial services for the banks.)*
 - c. What financial services does the Fed provide? *(The Fed clears checks, provides cash, processes electronic payments and fund transfers, and transfers securities. The Fed also handles the checking account for the U.S. Treasury.)*
12. Display a transparency from *Visual 3: Monetary Policy Tools*. Uncover the information, one section at a time as questions are asked about monetary policy:
- a. What are the primary tools that the FOMC uses to conduct monetary policy? *(Open market operations, the discount rate, and the reserve requirement)*
 - b. Which is the major tool for monetary policy, and how does it operate? *(The major tool of the FOMC is open market operations. This is the purchase or sale of securities in the open market.)*
 - c. How do open market operations work? *(When the Fed purchases securities, it pays for them with money stored in the bank. This increases the supply of money in circulation, making more money available for loans to businesses, and thus builds up a slowing economy. When the Fed sells securities, it takes payment for them into the bank, which removes money from circulation, and decreases the money supply.)*

This helps to bring inflation under control.)

- d. The discount rate is another tool of monetary policy. How does this work? *(When the Fed raises or lowers the discount rate, it influences other interest rates.)*
 - e. The reserve requirement is another tool of monetary policy. How does this work? Why is it seldom used? *(When the Fed raises or lowers the reserve requirement, it changes the percentage of deposits that banks are required to keep on hand, and thus it changes the amount available to lend out to consumers or businesses. This is not often used, since it makes it hard for banks to plan ahead.)*
13. Be sure that students understand the main aspects of the Federal Reserve Banking System, the basic functions of the Board of Governors, how many banks there are, and how the FOMC operates.

Debriefing Fed Activities

14. Divide the students into three or four groups so they may ask and answer questions based on the DVD, the PowerPoint presentation, and the class discussion.
15. When the groups have finished their questioning activity, explain that they should think of a creative way to present their knowledge to the class as a group. Explain that this will be worth two grades: an individual grade and a cooperative group grade.
16. Have each group present their information to the class.

A Home-Learning Research Project

17. Distribute assorted pamphlets and booklets obtained from the Federal Reserve such as:
 - "The History of Central Banking"
 - "Federal Reserve: Structure and Functions"
 - "Money, Banking, and Monetary Policy"

- “How to Establish, Use, and Protect Credit”
- “Dollars and Cents”
- “The Story of American Currency”

Explain that these contain information related to some of the functions of the Fed. Briefly, tell students what type of information is contained in each pamphlet.

18. Encourage the students to visit the following Web sites for supplemental knowledge:

- www.frbatlanta.org
- www.federalreserve.gov
- www.federalreserveeducation.org

19. Distribute sample packages of shredded, worn-out currency taken from circulation. Explain to the students that the Atlanta Fed, one of 12 regional banks that make up the Federal Reserve System, destroys an average of \$13 million worth of currency per day.

20. Assign students a home-learning assignment. The students will do research from the pamphlets and Web sites given in class, and provide more detailed information in reference to a specific concept of their choice. Then the students will submit a written report on their research.

- Supervising and regulating commercial banks*
 - Providing services to financial institutions and the government*
- What are the tools that the Fed uses to control the money supply? (*The reserve requirements, the discount rate, and open market operations*)
 - Which tool is used most? (*Open market operations*)
 - What are open market operations? (*Purchasing or selling government securities on the open market*)
 - How do open market operations work to help the economy when it is slowing down? (*The Fed buys government securities on the open market. It pays for them with money stored in the bank, which increases the supply of money in circulation. This makes more money available for business loans and builds up a slowing economy.*)
 - How do open market operations work to stop inflation? (*The Fed sells government securities on the open market. It takes payment for them into the bank, which removes money from circulation and decreases the money supply. This sometimes brings inflation under control.*)

CLOSURE

- At the end of the lesson, review the main economic concepts based on the viewing of the DVD, the PowerPoint presentation, and the class discussion. Do this as a summary of the lesson taught.
 - Describe the organization of the Federal Reserve System. (*The 12 regional Federal Reserve Banks are located across the nation. The Board of Governors is in Washington, D.C., and includes the Chairman of the Federal Reserve. The Federal Open Market Committee (FOMC) includes the seven board members and five presidents of the regional Banks.*)
 - What are the three main functions of the Federal Reserve?
 - Conducting monetary policy*
- Review the objectives of the lesson with the students, and encourage them to undertake further research based on the lesson taught.
- Review brief concepts from the handouts and from the brochures. Remind the students of the Web sites provided for them.

ASSESSMENT

Distribute to each student a copy of *Activity 2: Assessment*. Direct students to fill in the answers. Allow time for students to complete their work. After papers have been graded and returned to students, go over the correct answers with them, as found on *Activity 3: Assessment (Answers)*

EXTENSION

Encourage students to do further research based on the lesson taught. Ask them to look for newspaper articles, business magazines, Web sites, and to listen to the news and radio broadcasts, so that they are able to associate what they are learning in the classroom, and see how it affects our economy and our daily lives.

Structure of the Fed:

- **The Regional Federal Reserve Banks**
 - 12 banks in districts across the nation
- **The Board of Governors**
 - Seven members, including the chairman, each serving 14-year terms
- **The Federal Open Market Committee (FOMC)**
 - The seven members of the board, plus five regional bank presidents

Visual 2

Functions of the Fed:

- **Supervising and Regulating Banks**
- **Providing Financial Services**
- **Conducting Monetary Policy**

Visual 3

Monetary Policy Tools:

- **Open Market Operations**
- **The Discount Rate**
- **Reserve Requirements**

Activity 1: Script for The Federal Reserve Banking System PowerPoint Presentation

Why a Federal Reserve System?

SLIDE 2

- During the early 20th century, a series of financial panics occurred, during which many people withdrew their deposits from banks. Because of a particularly difficult crisis in 1907, Congress established the Federal Reserve in 1913. Today the “Fed” helps to maintain a healthy economy and a dependable banking system.
- Nationally, the Fed ensures a smooth exchange of payments between regions to increase the U.S.’s economic status internationally. Regionally, the Fed must meet local liquidity needs.
- The Federal Reserve System is a publicly controlled central bank with numerous checks and balances. In addition, the Board of Governors, the 12 regional Reserve Banks, and the Federal Open Market Committee, which make up the three parts of the Fed, function separately from the government. However, Congress oversees the system and creates objectives that must be followed.

Board of Governors

SLIDE 3

- The Board of Governors, also known as the Federal Reserve Board, is a federal government agency located in Washington, D.C. It is a fundamental component of the Fed.

SLIDE 4

- The Board is made up of seven governors who serve 14-year terms. They are appointed by the President of the United States and approved by the Senate.
- With the help of a number of economists and other staff, the Board makes decisions that affect our banks and protect our economy.
- Some issues the Fed is concerned with include affordable housing, consumer banking laws, interstate banking, and electronic commerce.
- The Board regulates banks, which are chartered by the different states, bank-owning companies, and the Reserve Banks.

Activity 1: Script for PowerPoint Presentation (page 2)

SLIDE 5

- The Board approves the presidents of Reserve Banks and members of their Boards of Directors.
- The Board participates in the Federal Open Market Committee (FOMC).
- A chairman and a vice chairman assigned by the President of the United States lead the Board for a four-year term.
- The Board testifies before Congress twice a year on issues such as monetary policy. It also meets with the President and Secretary of the Treasury periodically.

Federal Reserve Banks

SLIDE 6

- The Federal Reserve System is made up of 12 districts, each with a regional Reserve Bank, as well as additional branches.

SLIDE 7

- The Reserve Banks are the decentralized components of the Fed, operating individually while supervised by the Board. They discuss national policy and express a regional banking perspective based on their experience with the local economy.
- Reserve Banks are called the “banker’s banks,” because they handle the surplus of currency and coins from commercial banks, supervise these banks, and sort their checks and electronic payments. They also deal with the U.S. Department of the Treasury’s payments, securities, cash management, and investments. Ultimately, Reserve Banks prepare the Bank Presidents to take part in the FOMC and discuss the economy.

SLIDE 8

- Each Reserve Bank has its own Board of Directors that oversees the processes of the Reserve Bank, supplying local business with experience and leadership in the community. Nine Directors serve on this Board, six of which represent the public, and three represent banking. This Board chooses the President of the Bank with the consent of the Board of Governors.

Federal Open Market Committee

SLIDE 9

- The Federal Open Market Committee (FOMC) is in charge of making monetary policy. The Board of Governors, the President of the Federal Reserve Bank of New York, and four other Reserve Bank Presidents, who serve one-year terms, make up the voting members of the FOMC. The Chairman of the Board also serves as the Chairman of the committee.

Activity 1: Script for PowerPoint Presentation (page 3)

- FOMC meetings occur eight times a year, during which a senior official of the New York Federal Reserve discusses the financial and foreign exchange markets and the up-to-date actions of New York's domestic and foreign trading desks. The seven other Reserve Bank Presidents, who are non-voting members of the FOMC, speak regarding finances and the economy.

SLIDE 10

- After discussing possible monetary policy actions, the committee votes, and their directive is submitted to the New York Fed's domestic trading desk. Depending on whether the decision was to ease, tighten, or maintain the current policy, the desks either buys or sells U.S. securities on the open market.
- When the economy needs a boost, the Fed buys government securities on the open market. It pays for them with money stored in the Bank, which increases the supply of money in circulation, making more money available for loans to businesses. This helps to build up a slowing economy.
- To help stop inflation, the Fed sells government securities on the open market. It takes payment for them into the Bank, which removes money from circulation, and decreases the money supply. This helps to bring inflation under control.

SLIDE 11

For More Information, Visit: <http://www.federalreserve.gov>

Activity 2: Assessment

The Federal Reserve Banking System Test

Directions: Answer the following questions in complete sentences. (100 pts)

1. How many members are on the Board of Governors?
2. How long are the terms of the Governors?
3. How many regional Reserve Banks are there?
4. What is the main function of the Federal Open Market Committee (FOMC)?
5. How many times does the FOMC meet each year?
6. Why are the regional Reserve Banks considered decentralized components of the Fed's structure?
7. Who regulates and supervises banks across the nation?
8. What are the three main tools of monetary policy?
9. Describe at least three financial services that the Fed provides.
10. Explain how open market operations are used to boost a slowing economy.

Activity 3: Assessment (Answers)

The Federal Reserve Banking System Test

Directions: Answer the following questions in complete sentences. (100 pts)

1. How many members are on the Board of Governors? *(There are seven members of the Board of Governors.)*
2. How long are the terms of the Governors? *(The Governors serve 14-year terms.)*
3. How many regional Reserve Banks are there? *(There are 12 regional Reserve Banks.)*
4. What is the main function of the Federal Open Market Committee (FOMC)? *(The main function of the FOMC is conducting monetary policy.)*
5. How many times does the FOMC meet each year? *(The FOMC meets eight times a year.)*
6. Why are the regional Reserve Banks considered decentralized components of the Fed's structure? *(Each Bank is located in one of 12 major cities across the nation and has its own district. These banks are very concerned with the economy in their own region.)*
7. Who regulates and supervises banks across the nation? *(The Board of Governors regulates the banks and the regional Federal Reserve Banks supervise the banks.)*
8. What are the three main tools of monetary policy? *(The main tools of monetary policy are open market operations, the reserve requirement, and the discount rate)*
9. Describe at least three financial services that the Fed provides. *(At least three of the following must be listed: clearing checks, providing cash, processing electronic payments and fund transfers, transferring securities, and handling the checking account for the U.S. Treasury.)*
10. Explain how open market operations are used to boost a slowing economy. *(The Fed purchases securities, paying for them with money stored in the bank. This increases the supply of money in circulation and makes more money available for loans to people who want to start up new businesses. This builds up a slowing economy.)*