

An Economic SIM-ulus Package

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Federal Reserve Bank of Atlanta

Lesson Plan of the Year Contest, 2009

First Place

LESSON DESCRIPTION

This four-lesson unit aims to help students discover how economic conditions in their own community are taken into account at meetings of the Federal Open Market Committee (FOMC). The student achieve this by becoming business leaders on the board of the Federal Reserve Bank of Atlanta (FRBA).

First, students learn about the structure of the Federal Reserve System and the functioning of the FOMC. By engaging in an interactive online simulation, students then discover how adjustments in the federal funds rate can affect the economy. During the third day, students work in industry teams to conduct economic research on the GeoFRED web site. The four-day unit wraps up with a simulation in which students take the roles of participants preparing the FRBA's president for the June 2004 FOMC meeting.

The unit uses a Federal Reserve DVD, print material, and several web pages maintained by the Federal Reserve Banks of Atlanta, Philadelphia, St. Louis, and San Francisco.

GRADE LEVEL

High school students, grades 9–12. The lesson is suitable for classes in U.S. Government, Economics, American History, or Current Events.

CONCEPTS

Each of the following concepts is investigated in the lesson and applied by students in the preparation and execution of their roles in the simulation:

- Deflation
- Economic Indicators
- Federal Funds Rate
- Federal Open Market Committee (FOMC)
- Fiscal Policy
- Inflation
- Interest Rates
- Monetary Policy and Tools
- Open Market Operations
- Price Stability
- Tight/Easy Monetary Policy
- Unemployment Rate

NATIONAL CONTENT STANDARDS IN ECONOMICS

Standard 12: Role of Interest Rates

Students will understand that:

Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.

- **Benchmark 7 for 12th grade:** Higher interest rates reduce business investment spending and consumer spending on housing, cars, and other major purchases. Policies that raise interest rates can be used to reduce these kinds of spending, while policies that decrease interest rates can be used to increase these kinds of spending.

Standard 20: Monetary and Fiscal Policy

Students will understand that:

Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

- **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 made 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 by inducing changes in interest rates charged for credit and 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.

NATIONAL COUNCIL FOR THE SOCIAL STUDIES – High School Standards

V. Individuals, Groups, and Institutions

Social studies programs should include experiences that provide for the study of *interactions among individuals, groups, and institutions*, so that the learner can:

- V.b.** analyze group and institutional influences on people, events and elements of culture in both historical and contemporary settings;
- V.f.** evaluate the role of institutions in furthering both continuity and change;
- V.g.** analyze the extent to which groups and institutions meet individual needs and promote the common good in contemporary and historical settings.

VI. Power, Authority, and Governance

Social studies programs should include experiences that provide for the study of *how people create and change structures of power, authority, and governance*, so that the learner can:

- VI.c.** analyze and explain ideas and mechanisms to meet needs and wants of citizens, regulate territory, manage conflict, establish order and security, and balance competing conceptions of a just society.

X. Civic Ideals and Practices

Social studies programs should include experiences that provide for the study of *the ideals, principles, and practices of citizenship in a democratic republic*, so that the learner can:

- X.c.** locate, access, analyze, organize, synthesize, evaluate, and apply information about selected public issues—identifying, describing, and evaluating multiple points of view;
- X.e.** analyze and evaluate the influence of various forms of citizen action on public policy.

INTERNATIONAL READING ASSOCIATION/ NATIONAL COUNCIL OF TEACHERS OF ENGLISH LANGUAGE ARTS STANDARDS

(NOTE: In many school systems, social studies teachers are responsible for including and incorporating components from other core curriculum areas into their lessons. For the convenience of those instructors, language arts standards are referenced here.)

7. Students conduct research on issues and interests by generating ideas and questions, and by posing problems. They gather, evaluate, and synthesize data from a variety of sources (e.g., print and non-print texts, artifacts, people) to communicate their discoveries in ways that suit their purpose and audience.

8. Students use a variety of technological and information resources (e.g., libraries, databases, computer networks, video) to gather and synthesize information and to create and communicate knowledge.

OBJECTIVES

Students will be able to

- Recognize and explain the general structure of the Federal Reserve System, and that of the Federal Open Market Committee (FOMC) in particular.
- Analyze how economic conditions and outlooks influence monetary policy.
- Explore the role of local business leaders in relaying economic information and trends to Federal Reserve Bank presidents.
- Understand how FOMC participants provide information on their respective regional economic conditions that is considered in the formulation of monetary policy.
- Demonstrate acquisition and mastery of facts and concepts related to the Federal Reserve System through participation in an inter-active assessment.

TIME REQUIRED

Four to five fifty-minute class periods, depending on computer access and how quickly students work.

MATERIALS

- Video: *In Plain English: Making Sense of the Federal Reserve (DVD)*. Federal Reserve Bank of St. Louis. Available from <http://www.stlouisfed.org/education/resource/tools/>.
- A class set of the following publications, which can be downloaded or ordered from <http://www.stlouisfed.org/education/resource/tools/>:
 - DVD companion booklet: *In Plain English*, Federal Reserve Bank of St. Louis
 - Booklet: *Structure & Functions*, Federal Reserve Bank of Atlanta
 - Booklet: *A Day in the Life of the FOMC*, Federal Reserve Bank of Philadelphia
- Computer for each student team, or a computer lab, with active Internet connection
- Large monitor or monitor projector for group instruction (optional)
- The following Web sites:
 - <http://www.frbsf.org/education/activities/chairman/index.html>
 - <http://www.GeoFRED.stlouisfed.org>
 - <http://newyorkfed.org/markets/statistics/dlyrates/fedrate.html> Contains historical data on the Federal funds rate.
 - <http://www.bls.gov/iag/tgs/iag11.htm> Gives targeted information for agriculture.
- A class set of the following student handouts:
 - Activity 1: Federal Reserve Open Market Committee Simulation: Overview
 - Activity 2: Can You Answer These in Plain English?
 - Activity 3: So You Want to Be in Charge of Monetary Policy: Computer Simulation
 - Activity 4: Monetary Policy Simulation Adjustment Log
 - Activity 5: How to Use GeoFRED
 - Activity 6: Student Research Guide
 - Activity 7: Updated Economic Indicator Information

- Activity 8: Round 2 Pacing Message—Breaking News
- Activity 9: Federal Reserve Bank of Atlanta Memo
- Activity 10: Historical Findings for FOMC Meeting, June 2004
- Activity 11: Federal Reserve Press Release

Teacher Resources:

- Appendix A: Industry Team Slips. Cut out and prepare one slip per team.
- Appendix B: FOMC Simulation Role Assignments
- Appendix C: Industry Group Templates. Prepare one per team for tables as required.
- Appendix D: Pre/post Test Question Bank

PROCEDURE

Day 1

1. Ask students to recall any recent development or news item concerning interest rates. (Answers will vary but may refer to credit card rates, mortgages, car loans, the Federal Reserve, FOMC meetings or the federal funds rate).
2. Point out that changes in interest rates can affect individuals and businesses in various ways. An increase in interest rates can reduce consumer and business spending by making borrowing more expensive. A decrease in interest rates can increase these kinds of expenditures by making borrowing less expensive.
3. Explain that students will explore how certain interest rates are set nationally and how local economic conditions are taken into account when rates are set. Distribute a copy of *Activity 1: Federal Reserve Open Market Committee Simulation: Overview* to each student and review the steps entailed.
4. **For basic and regular classes**, tell students that they are going to watch a DVD about the Federal Reserve System (Fed), the nation's central bank. Distribute a copy of *Activity 2: Can You Answer These In Plain English?* Ask students to look for the answers

- as they watch the program. **For honors and advanced placement classes**, the DVD could be omitted in lieu of having students read pages 1–12 of *Federal Reserve Structure and Functions*.
5. Show the students the DVD *In Plain English: Making Sense of the Federal Reserve* (fourteen minutes long) and then have them complete *Activity 1*. Distribute a print copy of *In Plain English: Making Sense of the Federal Reserve*. Refer students to page 17 and use the reference pages listed on the quiz to check their answers to *Activity 1*. Review the answers with students. (1. Who created the Federal Reserve System? *Congress, by passing the Federal Reserve Act in 1913.* 2. Name the three parts of the Federal Reserve System. *The Board of Governors, the twelve regional Federal Reserve Banks, and the Federal Open Market Committee.* 3. What is the name of the Fed’s chief monetary policymaking body? *The Federal Open Market Committee.* 4. How many districts make up the Federal Reserve System? *Twelve.* 5. In which Federal Reserve district do you live? *This can be checked on page 8 or at www.federalreserve.gov/otherfrb.htm* 6. What are the three responsibilities of the Federal Reserve System? *Conducting monetary policy, providing financial services, and supervising and regulating banks.* 7. Name three activities you might see at Reserve Banks. *Data gathering, report writing, currency processing, check processing, seminars, tours, publication production.* 8. What is the Fed’s most frequently used tool for conducting monetary policy? *Open market operations.* 9. How does banking supervision differ from banking regulation? *Supervision entails the creation of rules for banks to follow. Regulation is the enforcement of those rules.* 10. Name three financial services the Fed offers. *Banker for other banks, banker for the U.S. government, processing and storing currency and coins, check processing, electronic funds payment services.*
 6. Play a round of “Stump the Teacher” in which students challenge the teacher to explain any unusual or new words and phrases.
 7. Emphasize to students that the **Federal Open Market Committee** is the Federal Reserve’s monetary policymaking body and that it is important for them to understand how the FOMC works and what it does. Have students read page 7 of *In Plain English* on the Federal Open Market Committee. Discuss the composition of the FOMC and make sure students understand that it is representative of the entire country. Explain that the FOMC meets at least eight times a year so that it can respond to changing economic conditions if necessary. Point out to students that the goals of monetary policy are maximum employment, stable prices, and moderate long-term interest rates.
 8. Review the following terms: **Open market operations**, the primary tool of the Fed, refers to the Fed’s buying or selling of previously issued U.S. government securities. When the Fed buys bonds, the sellers deposit the proceeds in bank accounts. The banks’ deposits and reserves increase and there is more money to loan—which means more money in the economy, lower interest rates, and more spending. Conversely, when the Fed sells bonds, the buyers pay for the bonds by taking money out of bank accounts. The banks’ deposits and reserves decrease, and there is less money in the economy, higher interest rates, and less spending. Ask students the following questions: What generally happens to interest rates when the Fed sells securities? (*There will be less money available and interest rates will rise.*) What is the desired effect on interest rates when the Fed purchases securities? (*Interest rates will decrease, more money will be available, and spending is encouraged.*) **Discount rate:** This is the interest rate the Federal Reserve charges banks if banks borrow reserves from the Fed itself.

Reserve requirements: These are the portions of deposits that banks must hold in reserve. Banks cannot loan out all the money that is deposited in them.

9. Tell students that the **federal funds rate** is what banks pay when they borrow on a very short-term basis from each other. The FOMC sets the federal funds rate target. By setting a target federal funds rate and using the tools of monetary policy (reserve requirements, discount rate, and open market operations), the Federal Reserve and the FOMC seek to promote macroeconomic goals of maximum employment, stable prices, and moderate long-term interest rates.
10. Distribute *A Day in the Life of the FOMC*. Explain to students that this is a detailed, first-hand account of what actually occurs during an FOMC meeting. They have just learned some facts about the FOMC, but this booklet will help review the FOMC and make it “come alive.”
11. Have students read pages 1 and 2. Ask the following questions to ensure that students understand the material. What does the FOMC do? (*sets monetary policy by setting the target for the federal funds rate*) How often does the FOMC meet? (*usually eight times a year*) Where does the FOMC usually meet? (*Washington, D.C.*) Who attends FOMC meetings? (*the seven members of the Board of Governors of the Federal Reserve and the presidents of the twelve Reserve Banks—although only five of the presidents are voting members at any one meeting*)
12. Have students read pages 3 and 4 of *A Day in the Life of the FOMC*. Ask students to explain in their own words how Federal Reserve Bank presidents obtain information that they use at the FOMC meetings. (*Each Reserve Bank prepares a Summary of Commentary on Current Economic Conditions, also known as the Beige Book. Banks’ research departments will also have provided briefings on economic conditions. In addition, Bank presidents will have spoken to a variety of business people in different sectors and will have met with the Banks’ directors and advisory councils.*) Emphasize
- that Bank presidents receive input from businesses and that students will soon have an opportunity to role-play how this is done.
13. Ask students, “What is a go-round?” *This is a process during FOMC meetings when everyone around the table has an opportunity to provide information on the region of the country he or she represents. This is a key way in which each region has input into national monetary policy.*
14. Have students read pages 5 and 6 of *A Day in the Life of the FOMC*. Ask students, “What are the three options facing the FOMC?” (*No change, an increase, or a decrease in the federal funds rate target*)
15. Remind students that the next step in the process is a second go-round when Reserve Bank presidents and governors each make their case for the federal funds rate option they prefer. Emphasize that everyone’s opinion matters and that the chairman summarizes a proposal for action and a proposed statement to explain the policy decision. Once a motion is on the table, the FOMC tries to come to a consensus.
16. Ask students, “How does the FOMC finally make a decision?” (*At the end of discussions, the seven governors and the five voting Bank presidents cast a formal vote on the proposed decision and on the wording of the accompanying statement.*)
17. At the end of Day 1, assign students into industry teams using Industry Team Slips you have prepared from *Appendix A*. (Note: If you want students to research other states besides their own, put a different state abbreviation on some slips.) Use the *Appendix B: FOMC Simulation Role Assignments* sheet to record student industry assignments.
18. **Differentiated instruction—accommodation for different student ability levels:** You may wish to assemble teams based on student skill level, language abilities, or behavioral qualities.

Day 2

19. Have students open <http://frbsf.org/education/activities/chairman/index.html>.
20. Distribute *Activity 3: So You Want to Be in Charge of Monetary Policy?*
Guide students as they follow the directions for items 1–8. Encourage students to take notes and review terms in the **Economic Dictionary**.
21. Distribute copies of *Activity 4: Monetary Policy Simulation Adjustment Log* and orient students to the game by reviewing with them the directions on the left-hand side of the screen. Make sure students understand how to record the results of their decisions on *Activity 4*. Have students proceed to item 9 of their directions where they click **Start Over** and then **Play Game**.
22. When students have completed step 10 of the directions by playing the simulation twice, proceed to step 11 and have them review their results and share their experiences in a class discussion.
23. Have students complete step 12 by working with their teammates to compare notes and run through the simulation again.

Day 3

24. Tell students that they will work in their five industry teams today to perform economic research.
25. Introduce students to <http://www.GeoFRED.stlouisfed.org> (the GeoFRED website). Distribute a copy of *Activity 5: How to Use GeoFRED* and walk students through the research available on the site, highlighting information that is relevant to their respective industries.

26. Distribute *Activity 6: Student Research Guide*. Tell students that their goal is to decide which of the three federal funds rate options (raise, lower, or leave unchanged) they would recommend for their industry and to be able to explain why. They should try to identify trends for their industry over the past ten years and examine indicators for the economy in general. Monitor student team progress and provide assistance as needed. Tell students that they will need the results of their research for Day 4.

Day 4

27. When students enter the room, they should sit with their industry groups. Distribute templates made from *Appendix C: Industry Group Templates* for easy identification.
28. Tell students that it is June 2004 and the Federal Reserve Bank of Atlanta president needs their help to prepare for the FOMC meeting of June 29–30. The simulation will follow this schedule:

Round 1: Industry group discussion to formulate recommendation (about twenty minutes).

Round 2: One representative from each industry will meet as the Atlanta FRB's Board of Directors to reach consensus on a recommendation memo to its president for the upcoming FOMC meeting in Washington, D.C., on June 29, 2004 (about fifteen minutes).

Round 3: Debriefing and student evaluation (about ten minutes).

28. During Round 1 meetings, circulate to observe the students. You should be prepared to help guide their efforts and answer questions, but students themselves should be doing the work. They should be examining data for their industry prior to June 2004.

Halfway through Round 1, give out *Activity 7*, the packet of *Updated Economic Indicator Information* to each group. Students are required to take this information into account. Toward the end of this round, remind each group to select one representative for Round 2, which is the board meeting of the Federal Reserve Bank of Atlanta.

29. Once Round 2 starts, nonparticipating students should focus their attention on the discussion. The round is not meant to be conducted in secret, but to demonstrate the next step in the process. However, students cannot speak to their representatives once the board meeting starts.

30. Halfway through Round 2, read *Activity 8: Pacing Message—Breaking News* on economic figures. Afterward, provide the Board with a copy of the final *Memo* (Activity 9), which MUST be completed by the time limit for the students to successfully conclude the exercise.

31. Once the board meeting has concluded, obtain the completed *Memo* and read the class the full text. Conduct a discussion by way of closure. Students should reflect on their experience. How did they evaluate the information they obtained during their research? How easy or difficult was it to build consensus? How do they believe their industry peers will react to the decision reached by the board of directors? Then ask their industry peers who did not take part in the board meeting to outline their reactions to the recommendation.

32. Read or distribute the "*Historical Findings for FOMC Meeting, June 2004*" (Activity 10) to students to show them what really happened as a result of the June 2004 FOMC meeting. Distribute the *Press Release* (Activity 11)

from the actual meeting so that students may read the wording that was used. Note: A chart at <http://www.newyorkfed.org/markets/statistics/dlyrates/fedrate.html> contains historical data on moves in the federal funds rate.

ASSESSMENT

This lesson lends itself to a variety of assessments:

- Select questions from the included question bank (*Appendix D: Pre/post Test Question Bank*) to help create a pre/post test to evaluate the learning gains of the participating students.
- Evaluate student performance by observation at various stages of the lesson, such as during the reading/discussion of Day 1, the research assignments during Days 2 and 3, and the simulation exercise of Day 4.
- Have students write a paragraph or essay summarizing the economic conditions affecting their assigned industry and, using the economic terms covered in the lesson, describe how monetary-policy decisions would affect that industry.
- Have students write a first-person account of their experience with this simulation exercise and an evaluation of the results.

AUTHOR'S NOTE

Perhaps the most telling comment I heard from a student was that "Those Federal Reserve guys have got their work cut out for them!" As they learned more about the Federal Reserve, the FOMC, and how each works to maintain economic stability, students were impressed with the breadth of information members of the FOMC must master. Many also characterized that work as stressful, noting that making the right decision was a big responsibility with far-reaching consequences, and it can be difficult in light of sometimes conflicting data.

Activity 1

Federal Reserve Open Market Committee Simulation: Overview

We've all read about the tumultuous events of the Great Depression and how a newly elected president, along with a fledgling Federal Reserve System (Fed), worked to bring the United States back toward prosperity. Economics students read about the structure and functions of the Federal Reserve and the Federal Open Market Committee (FOMC) . . . but it all seems *distant*. Exactly how does the economic activity of *our own* neighborhood and city relate to the actions the Fed decides to take, and vice versa? This week you will discover how local economic conditions are taken into account during meetings of the FOMC by placing yourself in the middle of preparations for the meeting of June 2004.

Initially, you will learn about the structure at the top of the nation's monetary policy apparatus, the Federal Open Market Committee. Next comes a computer-monitored simulation as you get a feel for how adjustments in the federal funds rate affect the economy and what economic conditions will trigger a decision by the FOMC to change the rate. This is where we start to "drill down" to the effect local information has on the process.

On the third day, your team will get together to continue research into your industry and how economic conditions are affecting it. The four-day lesson wraps up with a simulation exercise in which you step into your roles of participants preparing your Federal Reserve Bank president for the FOMC meeting. You will meet with your industry peers to come to consensus while dealing with "breaking news." A representative of each group then "travels" to meet with the board of directors, provide updated information, and come to a consensus recommendation.

Activity 2

Can You Answer These in Plain English?

1. Who created the Federal Reserve System?
2. Name the three parts of the Federal Reserve System.
3. What is the name of the Fed's chief monetary policymaking body?
4. How many districts make up the Federal Reserve System?
5. In which Federal Reserve district do you live?
6. What are the three responsibilities of the Federal Reserve System?
7. Name three activities you might see at Reserve Banks.
8. What is the Fed's most frequently used tool for conducting monetary policy?
9. How does banking supervision differ from banking regulation?
10. Name three financial services that the Fed offers.

Activity 3

So You Want to Be in Charge of Monetary Policy: Computer Simulation

Student Directions:

1. Go to <http://www.frbsf.org/education/activities/chairman/index.html>.
2. Click the screen to begin.
3. Click on **Learn More**
4. Click on **Policy in Depth**.
5. Click on **What are the goals?** And view the clip.
6. Click on **Who sets the policy?** And view the clip.
7. Click on the **Fed Toolkit** to view **Tight or Easy Monetary Policy**.
8. Check out the **Economic Dictionary** if you want clarification of any terms.
9. Click **Start Over** and then **Play Game**. Read the directions on the left of the screen.
10. Use the accompanying **Monetary Policy Simulation Adjustment Log (Activity 4)** to record data as you play the game twice.
11. What did you learn?
12. Meet with your team to compare notes and run another game or two together.

Activity 4: Monetary Policy Simulation Adjustment Log

Quarters Remaining	Headline / EXTRA! Headline	Fed. Funds Rt.	Unempl. Rate	Inflation Rate
START	-----	4.5	4.75	2.14
16				
15				
14				
13				
12				
11				
10				
9				
8				
7				
6				
5				
4				
3				
2				
1				
0				
START	-----	4.5	4.75	2.14
16				
15				
14				
13				
12				
11				
10				
9				
8				
7				
6				
5				
4				
3				
2				
1				
0				

Activity 5

How to Use GeoFRED

GeoFRED is a geographically organized database of economic information.

1. Go to <http://www.GeoFRED.stlouisfed.org>.
2. Click on **Edit Data/Layers**, which brings up several tabs to help you request information.
3. Under the **Layers** tab, check the boxes for both **Boundary** and **Label** for **Federal Reserve Districts** to see the jurisdiction of the Sixth District, including Alabama, Georgia, and Florida, as well as southern Louisiana, Southern Mississippi, and the eastern two-thirds of Tennessee.
4. Under the **Data** tab, select an area category, data, date and check **Show Data Values** to display hard data. Click on **Update map**.
5. To search by state, click on the **Area Information** tab.
6. Click on a state to see all data series—more than 60—available for that state.
7. Click on any one of the data series for an up-to-date graph showing trends. Note that there are menus for additional information on the page, such as annual percentage change, etc.

Some choices for the **State** option under the **Area** category that you should highlight by industry are:

Consumer Spending/Retail: State Government Tax Collections, General Sales and Gross Receipts Taxes; State Government Tax Collections, Total Selective Sales Taxes.

Real Estate: Home Ownership Rate; Home Vacancy Rate; Home Price Index; New Private Housing Units Authorized by Building Permit; Rental Vacancy Rate.

Tourism/Travel: Leisure and Hospitality Employment; State Government Tax Collections, Amusements Licenses; State Government Tax Collections, Amusements–Selective Sales Taxes; Trade, Transportation and Utilities Employment.

Banking/Financial: (**NOTE: These appear under the Census Division area. To obtain these data, you must click on Edit data/layers, select layers, and then click Boundary and Label for Census Region**) Nonperforming Commercial Loans; Nonperforming Total Loans; Total Net Loan Charge-offs (each with various categories based on total bank asset amount).

Agriculture: Targeted economic information for this industry can be found online at <http://www.bls.gov/iag/tgs/iag11.htm>.

All Industries: Civilian Labor Force; Real Total Gross Domestic Product by State; Unemployment Rate

Activity 6

Student Research Guide

Having a tough time getting started? Think about how you might answer the following questions about your industry in your state to get the ball rolling! Use this sheet to make notes.

What are the inherent strong and weak points of your industry?

Are prices in your industry fairly stable? Going up? Coming down?

Is your industry seeing more or fewer customers?

Are customers borrowing money to make purchases? Are they borrowing too much? _____

Is your industry moving in the same direction as the entire economy or not?

Where do you believe your industry is in the business cycle and how long has it been there?

Is the number of producers in your industry expanding? Contracting? Remaining steady? _____

Have conditions been the same in all parts of the district for your industry or are there differences between states?

Policy recommendation (raise/lower/unchanged federal funds rate) and why?

Activity 7

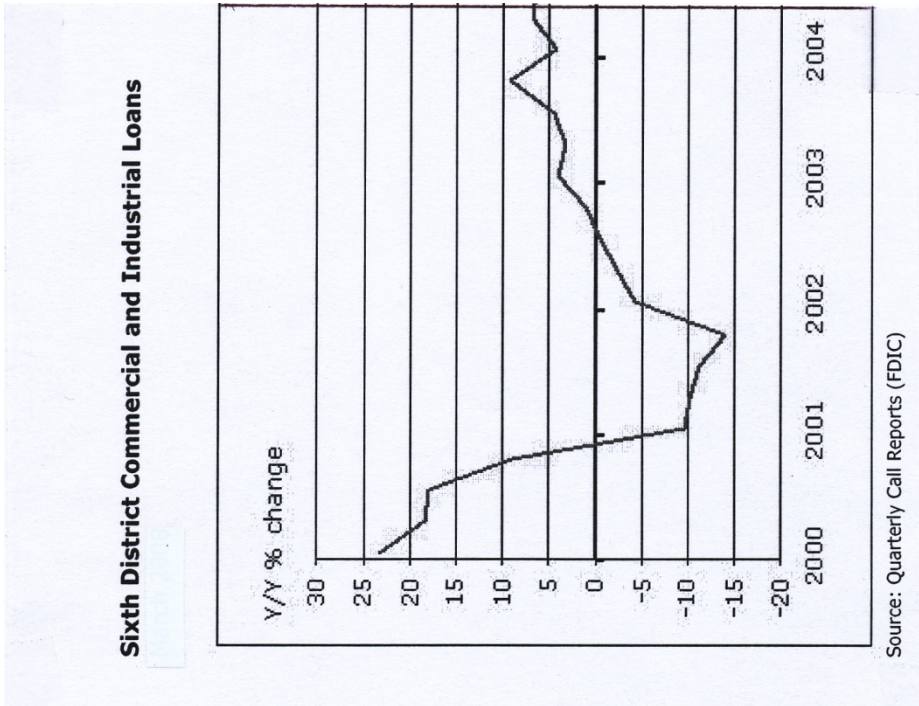
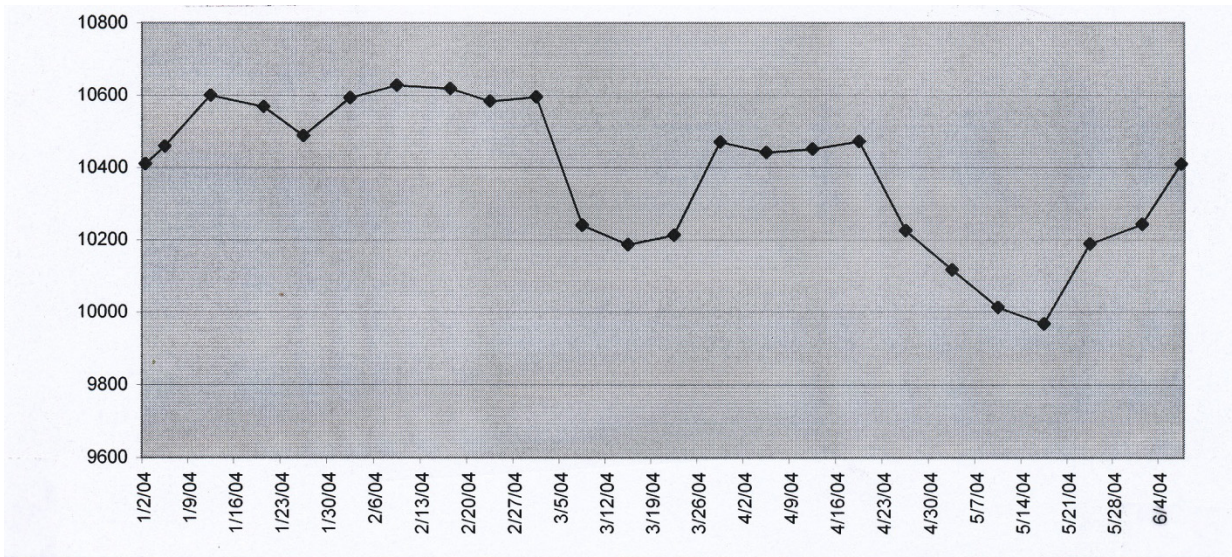


FEDERAL RESERVE BANK *of* ATLANTA

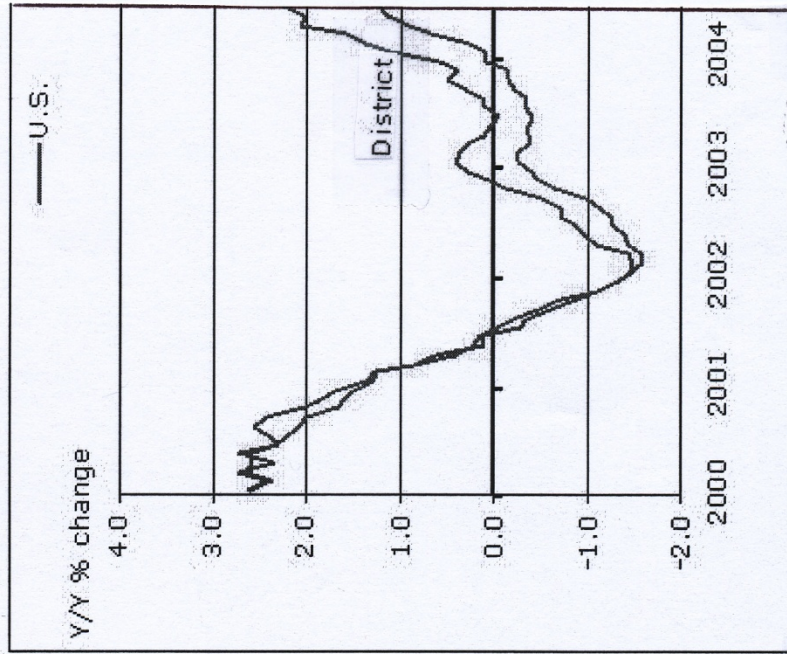
Updated Economic Indicator Information

Preparatory Meeting
Federal Reserve Bank of Atlanta
Board of Directors
June 2004

Dow Jones Weekly Close - 2004

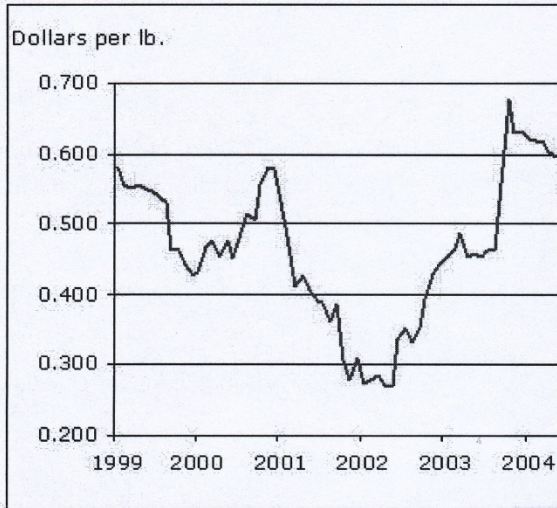


Payroll Employment Growth



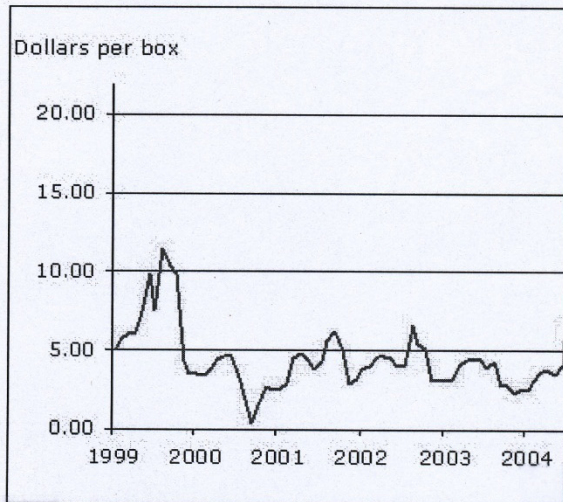
Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

Prices Received by Farmers - Cotton



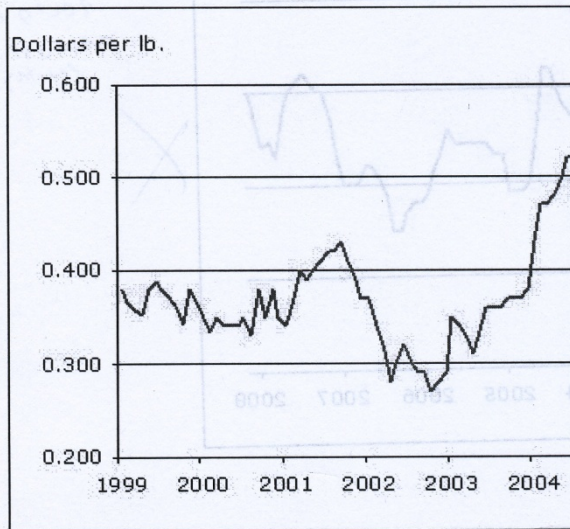
Source: U.S. Department of Agriculture

Prices Received by Farmers - Oranges



Source: U.S. Department of Agriculture

Prices Received by Farmers - Poultry



Source: U.S. Department of Agriculture

Activity 8

Round 2 Pacing Message—Breaking News

NEWS BRIEF – FOR IMMEDIATE RELEASE

According to preliminary estimates, economists are advising that reports due out later this month will show national real gross domestic product increased during the second quarter of the year at an annualized rate of close to 3 percent. This figure has been adjusted for inflation. Also, early indications are that the Consumer Price Index for the second quarter of 2004 will show a noticeable increase over the figure for the first quarter of the year.

In the portion of the southeastern United States served by the Federal Reserve Bank of Atlanta, the Bureau of Labor Statistics projects that unemployment for the month of June will rise to 5.3 percent. While this is higher than the 4.6 percent figure for May, it is in line with the traditional increase in unemployment for the summer months. In 2003, the rate for May was 5.1 percent and June's rate was 6 percent.

Activity 9



MEMO

TO: President, Federal Reserve Bank of Atlanta

FR: Board of Directors

DT: June 25, 2004

RE: Upcoming FOMC meeting - recommendations

Having concluded our executive session, we have arrived at the following recommendations for your meeting with the Federal Open Market Committee at the Federal Reserve building in Washington, D.C., this coming Tuesday, June 29.

In recognition of the desire of the Federal Open Market Committee to aid monetary and financial conditions that will encourage price stability and promote sustainable growth in output, we believe that, to further its long-run objectives, the Committee in the immediate future should seek conditions in reserve markets consistent with

- maintaining
- increasing
- reducing the federal funds rate

- at
- to an average of around
___ percent.

Considering the long-run goals of price stability and sustainable economic growth, and based on the information currently available, the Board of Directors believes that the risks

- are weighted mainly toward conditions that may generate economic weakness
- are balanced with respect to prospects for both goals
- are weighted mainly toward conditions that may generate heightened inflationary pressures in the foreseeable future.

Activity 10

Historical Findings for FOMC meeting

June 2004 Sixth District—Atlanta

Reports indicated **consumer spending** continued to be strong during May in most parts of the district. A majority of retailers reporting showed their sales were higher than for the same period last year, and they are projecting that second quarter sales will also top figures for the previous year. Car sales have been off since the start of the year but showed slight improvement in April.

In **real estate**, home sales were slightly higher in May, with home prices continuing to rise; this price increase is being blamed on increasing costs for construction materials. Developers are enthusiastic about the coming months, and new construction of single-family homes in the second quarter is expected to exceed last year's high intensity.

Tourism and travel continue to have a positive outlook. Spring tourism in South Florida was at levels that pleased industry sources, and advance bookings show the trend will continue into the summer. Air traffic in Orlando has apparently returned to its pre-9/11 levels, and business travel continues to rebound, with more groups holding meetings in Atlanta and Nashville.

The **financial/banking** industry has enjoyed a strong report. The number of past-due loans is small, with asset quality and loan demand continuing to show increases. Demand for industrial, commercial, and small business loans continues to improve. One reporter advised that even higher interest rates were not reducing the demand for loans.

In the **agricultural** sector, the southeastern portion of the district continued to be affected by dry weather. Farmers in the western parts of the district had the opposite problem; heavy rains in the region have kept field workers from doing their jobs in Louisiana and Mississippi.

Activity 11

Federal Reserve Press Release

Release Date: June 30, 2004

For immediate release

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 1-1/4 percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid pace and labor market conditions have improved. Although incoming inflation data are somewhat elevated, a portion of the increase in recent months appears to have been due to transitory factors.

The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters are roughly equal. With underlying inflation still expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

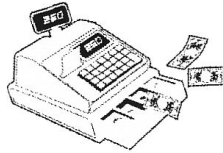
Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Ben S. Bernanke; Susan S. Bies; Roger W. Ferguson, Jr.; Edward M. Gramlich; Thomas M. Hoenig; Donald L. Kohn; Cathy E. Minehan; Mark W. Olson; Sandra Pianalto; and William Poole.

In a related action, the Board of Governors approved a 25 basis point increase in the discount rate to 2-1/4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco.

Last update: June 30, 2004

Appendix A: Industry Team Slips

Consumer Spending/
Retail



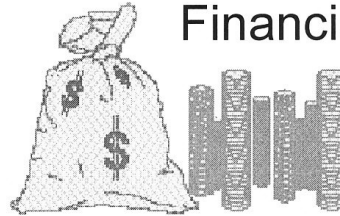
Real Estate



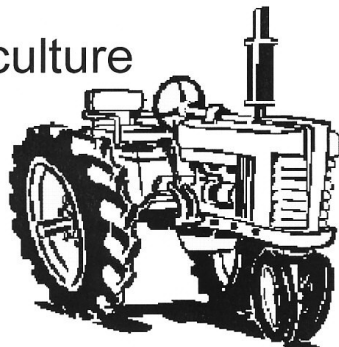
Tourism/Travel



Banking/
Financial



Agriculture



Copy as many of these selection slips as you need for your class. To get your students to research beyond their home state, put a different state abbreviation (for instance, AL, FL, GA, LA, MS, TN) on each slip so students will represent the entire Federal Reserve district

Appendix B: FOMC Simulation Role Assignments

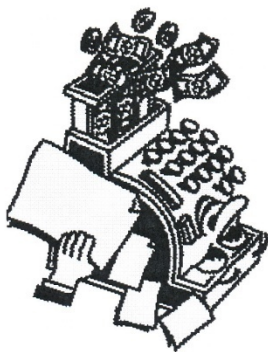
Consumer Spending (Retail)

Real Estate

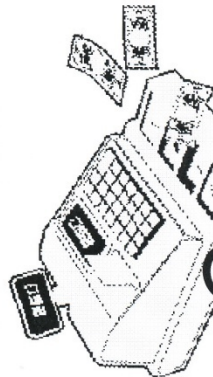
Tourism/Travel

Banking/Financial

Agriculture



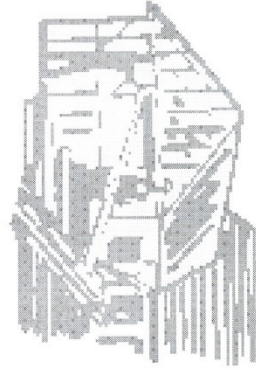
Consumer Spending/Retail



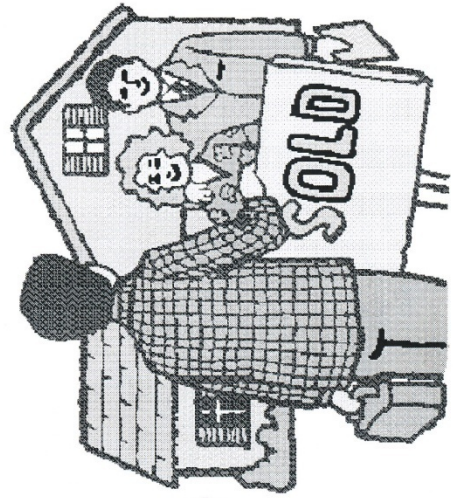
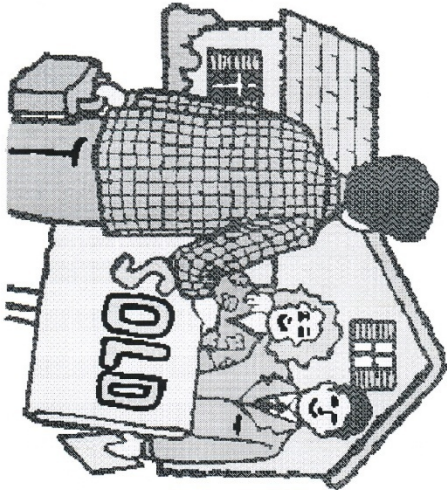
Consumer Spending/Retail



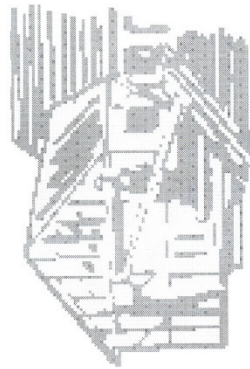
Appendix C: Industry Group Templates



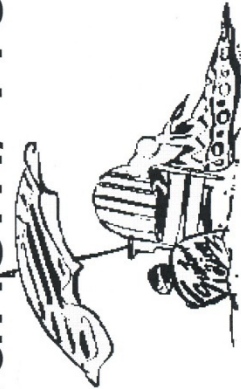
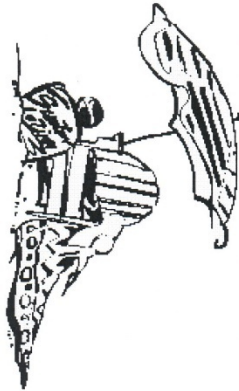
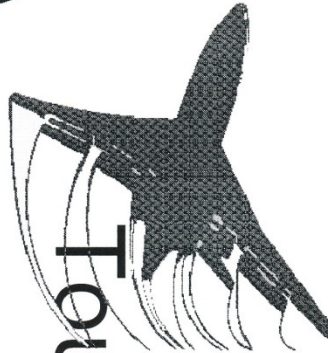
Real Estate



Real Estate

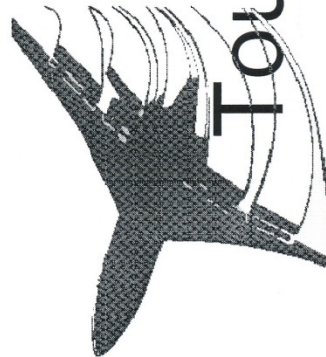


Appendix C: Industry Group Templates



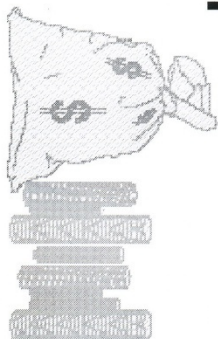
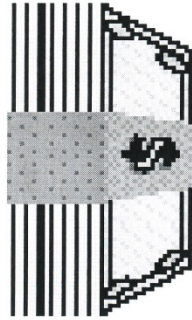
Tourism/Travel

Tourism/Travel

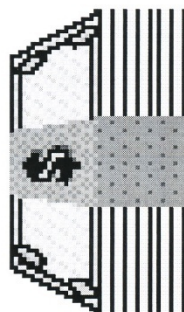
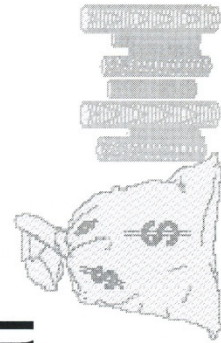


Appendix C: Industry Group Templates

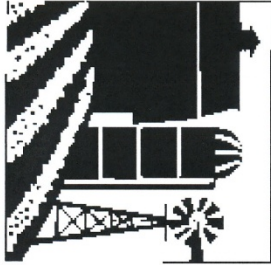
Banking/Financial



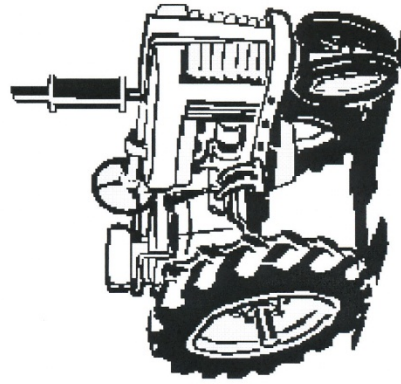
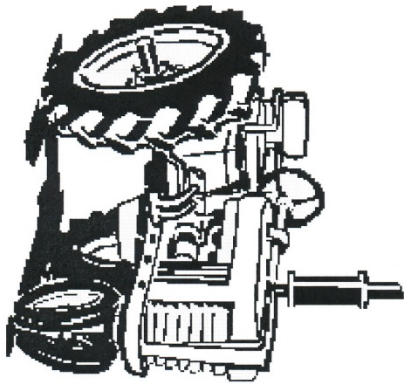
Banking/Financial



Appendix C: Industry Group Templates



Agriculture



Agriculture



Appendix C: Industry Group Templates

Appendix D: Pre/post Test Question Bank

1. Name any two of the three parts of the Federal Reserve System.
The Board of Governors, the Federal Open Market Committee, and the Reserve banks
2. Which branch of the federal government created the Federal Reserve?
Legislative/Congress
3. What is the difference between fiscal policy and monetary policy?
Fiscal policy refers to the taxing and spending actions of government. Monetary policy refers to the actions of the Federal Reserve Bank to ensure maximum employment, stable prices, and moderate long-term economic growth.
4. What does the abbreviation FOMC stand for?
Federal Open Market Committee
5. Two measures of the strength of our economy are economic growth and the stability of ?
Prices
6. How often does the FOMC usually meet?
Eight times a year
7. Which Federal Reserve Bank serves the southeastern United States?
Federal Reserve Bank of Atlanta
8. Which Federal Reserve Bank conducts open market operations?
Federal Reserve Bank of New York
9. For how long does the Chairman of the Board of Governors serve as Chairman?
Four years
10. What name is given to the interest rate that banks charge each other for overnight loans?
Federal funds rate
11. What instruments are bought and sold in open market operations?
Government securities
12. What are the three options the FOMC has for monetary policy at each meeting?
The FOMC may raise, lower, or maintain the federal funds rate.
13. If the FOMC gives the word to sell government securities, what effect should that have on the federal funds rate? Explain why.
This action should raise the rate. By selling securities the Fed obtains money, which takes it out of circulation. As the supply of money decreases, the price of borrowing it (interest) goes up.