

The Story of Monetary Policy

Middle School Lesson Plan

Standards

New York

- 8.2e Progressive reformers sought to address political and social issues at the local, state, and federal levels of government between 1890 and 1920.

New Jersey

- 6.1.8.A.2.b Explain how and why early government structures developed, and determine the impact of these early structures on the evolution of American politics and institutions.
- 6.1.8.C.4.a Analyze the debates involving the National Bank, uniform currency, and tariffs, and determine the extent to which each of these economic tools met the economic challenges facing the new nation.

Connecticut

- CIV 8.1 Explain the origins, functions, and structure of government with reference to the U.S. Constitution, state constitutions, and selected other systems of government.
- CIV 8.2 Analyze ideas and principles contained in the founding documents of the United States, and explain how they influence the social and political system.

NCSS

- Production, Distribution, and Consumption
 - Knowledge: Learners will understand
 - That banks and other financial institutions channel funds from savers to borrowers and investors

C3 Framework

- D2.Eco.10.6-8. Explain the influence of changes in interest rates on borrowing and investing.

Grade Level

6-8

Time Required

120 minutes



FEDERAL RESERVE BANK of NEW YORK

1 of 12

Compelling Question

Why do prices matter?

Supporting Questions

How do you take care of your wants and needs?

How does monetary policy influence prices?

What happens when prices change quickly?

Objectives

- Handout 1: Prices: The Marketplaces' Communication System
- Reading 1: Prices: The Marketplaces' Communication System
- Handout 2: Prices in the Galaxy
- Handout 3: [An Illustrated Timeline of Prices](#)
- Handout 4: The Interest Rate Lever
- Handout 5: Monetary Policy Review
- Handout 6: The Price of Price Instability
- Handout 7: Economic Med School



Procedures

Supporting Question 1: How do you take care of your wants and needs?

1. Ask students how they decide if they want something. (*Students will likely answer that it makes them happy, etc.*) Ask students if they are able to get everything that they want all the time. (*Answers will vary; some students may be content, while others will likely want more than they are able to get.*) Ask the students who expressed that they want more things why they are not able to get them. (*Some students might say they don't have the time or the money. Focus students on the idea of prices being a major reason that they cannot get everything they want.*)
2. Distribute Handout 1: Prices: The Marketplaces' Communication System. Ask students to use the box at the top to predict the role of prices in the market.
3. Distribute Reading 1: Prices: The Marketplaces' Communication System. Explain that students will be reading to learn about the role of prices in the economy.
4. Debrief with students, emphasizing the role that prices play in communicating basic ideas about the availability of resources.
5. Explain to students that changes in prices are an important indicator of economic health. Distribute Handout 2: Prices in the Galaxy to students. Divide the class into halves. Explain that one half of the class will read pages 6-9. The other half will read page 6, and pages 13-15. As students read, they should answer the focus questions on the half of the page that corresponds to their reading.
6. Using a think/pair/share activity, pair up students who read different sections. Encourage the students to teach the other group about the pricing situation on their individual planet, and how prices reflect underlying economic conditions.
7. Debrief as a class to the focus questions on Handout 2: Prices in the Galaxy
8. Distribute Handout 3: An Illustrated Timeline of Prices. Remind students that they have seen how prices are an important signaling mechanism for the health of the economy. Explain that students will be creating an illustrated timeline which shows all of the factors that go into determining prices.
9. Ask each student to choose one item that they regularly purchase. On part 1 of the handout ask students to think of at least 4 steps that go into the production



of the product. *(Have students think about things such as getting the raw materials, assembling the product, shipping it to their door or to the store, etc.)* Ask the students to illustrate each step and the process and to write one sentence explaining how each step influences the price of the item.

10. Assess student knowledge by asking students to answer the question at the bottom of Handout 3. *(Expected student response: prices are important because they indicate the supply and demand of goods.)*

Supporting Question 2: What is monetary policy?

11. Begin this portion of the lesson by reviewing what students learned in Step 10. Review with students the compelling question: **Why do prices matter?**
12. Explain that today students will be reading the comic book to see how the Federal Reserve System conducts monetary policy in order to influence prices.
13. Assign students to read pages 10-12 of the comic book. Distribute Handout 4: The Interest Rate Lever. Allow students time to read and answer the questions.
14. Debrief with students about the impact of interest rates, focusing on the reason the Federal Reserve System changes interest rates to conduct monetary policy.
15. Conclude the lesson by asking students to complete Handout 5: Monetary Policy Review. Students should be able to define interest rates and to explain how changes in the interest rate help the Federal Reserve System meet its objectives. Ask students to answer the question at the bottom of Handout 5, linking what they have learned to the compelling question. *(Students should respond that by keeping prices stable and as many people as possible employed, the economy is healthier and people are more likely to have trust in the money.)* Debrief with students, collecting answers to each question and putting several on the board to see how similar or different the answers are. Explain to students that they will be returning to these answers to evaluate their predictions.
16. Conclude the activity by reminding students that today they were answering the question: **What is monetary policy?** Review student reasons about why to raise or lower interest rates.
(Expected student response: raise interest rates when inflation is a threat, and lower interest rates during periods when prices are falling and the economy is in a recession.)



Supporting Question 3: What happens when prices change quickly?

17. Review with students the importance of monetary policy from the previous lesson. *(Students should respond that monetary policy is conducted by the Federal Reserve System to create a stable economy.)* Remind students of the monetary policy procedures they learned in Step 15. Explain that today students will be answering the supporting question: **What happens when prices change quickly?**
18. Distribute Handout 6: The Price of Price Instability. Ask students to read pages 7-8 and 13-14 of the comic. As they read, students make a list of the various problems encountered by citizens during periods of price instability. *(Students should note the following: citizens struggle to buy what they need, businesses can't plan for the future, governments can't get funding.)*
19. Remind students that they previously listed monetary policy solutions on Handout 5. Debrief by asking students to compare the list of monetary policy outcomes with the list of citizen problems on Handout 6.
20. Explain to students that problems in an economy need to be diagnosed and solved quickly and efficiently. Tell students that they will all be attending Economic Medical School in order to learn how to diagnose a sick economy.
21. Distribute Handout 7: Economic Med School. Using the list of monetary policy tools in Step 25, ask students to diagnose each of the situations and to provide a solution:
 - a. Patient 1: High inflation and high unemployment. *(Expected student response: increase the fed funds rate to decrease inflation and allow unemployment to return to equilibrium.)*
 - b. Patient 2: Low inflation and high unemployment. *(Expected student response: decrease the fed funds rate to spur investment and boost spending.)*
 - c. Patient 3: Stable inflation and low unemployment. *(This patient is healthy and does not need treatment.)*
22. Debrief the students when all have had time to finish. Students should be able to discuss the ways in which monetary policy can help reduce periods of economic sickness.



Assessment

23. Remind students of the initial compelling question for the lesson: **Why do prices matter?**
24. Ask students to re-read pages 18 to 21 and the explorers as they travel the galaxy. Students should imagine that they are now economic doctors who are planning to diagnose other planets' economic sickness.
25. Students work in groups to create a "doctor's note" about signs and symptoms experienced by planets that are sick. Some possible signs and symptoms:
 - a. Inflation and unemployment
 - b. Production and Gross Domestic Product
 - c. Financial services and the financial sector
26. After diagnosing the symptoms, students write a "prescription" for the problem by diagnosing the correct monetary policy response.



THE STORY OF
MONETARY POLICY
HANDOUT ①

Prices: The Marketplace's Communication System

WHAT IS THE PURPOSE OF A PRICE?

1. What is meant by "the dual role of prices"?
2. How is the equilibrium price of a good or service determined?
3. What happens if there is too much or too little of a good?
4. Why might government get involved in setting prices?



THE STORY OF
MONETARY POLICY
HANDOUT ②

Prices in the Galaxy

Pages 6-9

WHAT IS HAPPENING ON YOUR PLANET?

HOW ARE THE CITIZENS SUFFERING?

WHAT MIGHT BE ONE WAY YOU SET OUT TO SOLVE THE PROBLEM?

WHAT IS INFLATION? WHY IS IT A PROBLEM?

Pages 6, 13-15

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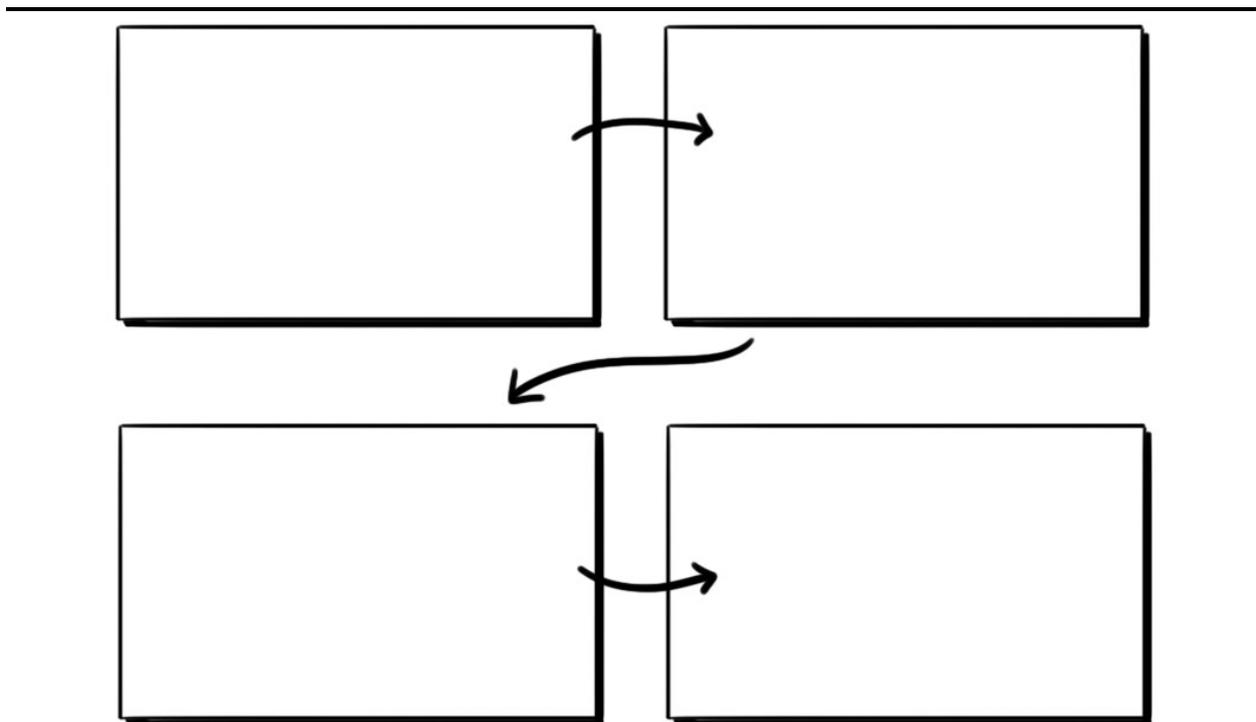
THE STORY OF
MONETARY POLICY
HANDOUT ③

An Illustrated Timeline of Prices

What goes into the price you pay? As you've seen, many factors do! Now is the time for you to track the prices of your favorite goods.

Pick an item that you are interested in or purchase regularly. In the boxes below, illustrate four different phases of how the device gets to your house. Think about raw materials, production, delivery, and more!

At the arrows, write one sentence explaining how this step in the process can influence the price.



Why are prices important?



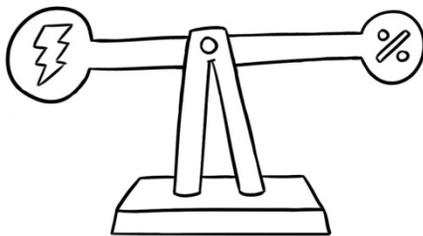
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HANDOUT **4**

The Interest Rate Lever

As you have seen, changes in the interest rate can change consumer behavior. Glix needs your help!

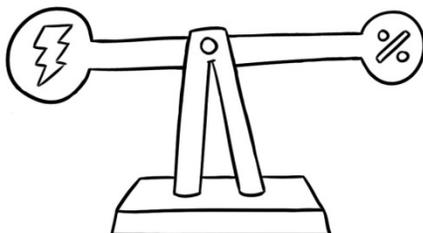
Using your knowledge of economics and pages 10-12 of the comic book, read each scenario below. Draw an up or down arrow on the correct side of the interest rate lever to indicate what should happen to interest rates and the amount of lending and borrowing.

Flora: "Inflation seems to be a real concern. Prices are going up and businesses can't predict the future. What should I do?"



EXPLANATION: WHY DID YOU MAKE THE CHOICE YOU DID?

Flora: "Folks still can't seem to afford things even though prices are going down because money is extremely scarce. What should I do?"



EXPLANATION: WHY DID YOU MAKE THE CHOICE YOU DID?

Overall, what is the relationship between changing interest rates and the expansion of money and credit in the economy?



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HANDOUT 5

Monetary Policy Review

What are open market operations?

What happens when the Federal Reserve System raises interest rates?

What happens when the Federal Reserve System lowers interest rates?

How does the Fed use Open Market Operations to keep prices stable?

Monetary Policy Review

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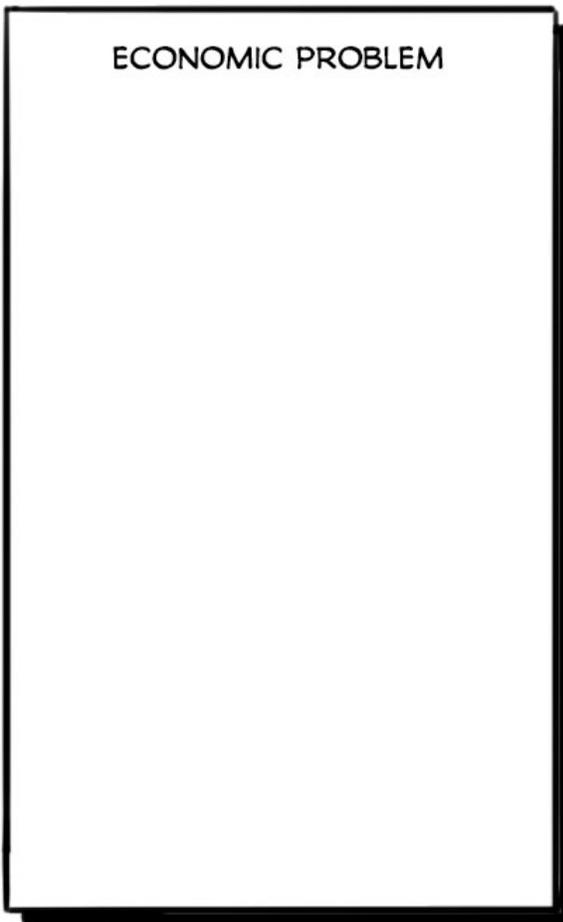
THE STORY OF
MONETARY POLICY
HANDOUT 6

The Price of Price Instability

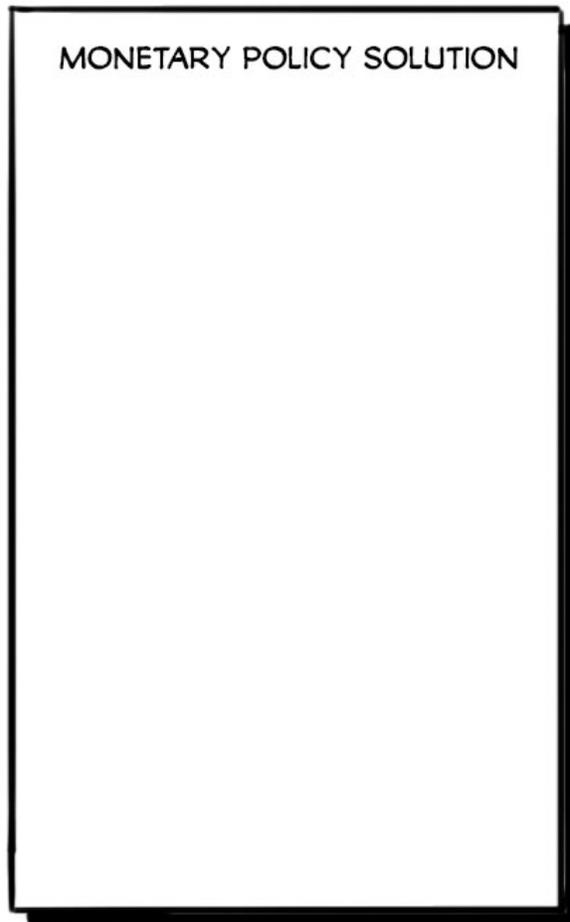
Prices are extremely important to consumers, and communicate key ideas about the health of the economy.

In the space below, list the problems encountered by citizens due to price instability. Then, draw an arrow to the second box and suggest a monetary policy solution to the problem.

ECONOMIC PROBLEM



MONETARY POLICY SOLUTION



THE STORY OF
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HANDOUT 7

Economic Med School

Patient 1



"Looking at what's happened, I seem to have extremely high inflation and unemployment keeps creeping up and up to dangerous levels. What do you diagnose? What's the cure?"

Patient 2



"I just woke up feeling like inflation was really low. But when I checked my unemployment rate it was sky high. It was really concerning so I went and got checked in right away. What do you diagnose? What's the cure?"

Patient 3



"Well, my prices seem really stable, at least from what I can see. Unemployment is pretty low. I guess it could be better but all around I'd say it's in the good range. What do you diagnose? What's the cure?"



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