

Student

M

High Range

2+

Date

9/30/13

Directions: Using the evidence from the reading, your notes, class discussion, and visual aids answer the following question.

Check for Understanding

- How do actions by the Federal Reserve affect consumer spending? Answer with economic evidence.

Rubric

2-This response gives a valid effect with accurate and relevant economic evidence.

1-This response gives a valid effect with inaccurate, irrelevant, or no economic evidence.

-valid effects (multiple)
 -multiple uses of text and class discussions
 -accurate and relevant economic evidence used to support response

The Federal Reserve's job is to keep prices stable and to balance the money supply. (Paragraph 1 sentence 4 of "The Role of the Fed" and the bottom of "Federal Reserve Bank Notes continue.") When the FED decreases or increases the money supply, it affects business activity, employment, and prices. (The front of "Federal Reserve Bank Notes continue.") When the FED increases the money supply, the amount of money borrowed increases, which leads to more spending from the consumer and more sales from the producers. (Class discussion and front of Federal Reserve Bank Notes continue.) This is due to banks having more excess money to lend. (text dependent question paragraph 5 - last sentence.) When the FED lowers the money supply, spending decreases due to less loans being given out by banks. When spending decreases production and profit decreases for producers. (class discussion)

accurate + relevant evidence

strong economic evidence

valid effects

Banks also "create" money when they lend it by taking some of the money that was deposited and making a loan to a business. The business then uses the loan to make a purchase, and then the seller deposits the money that it has to another bank and the process keeps on going (visual aid, page 8, 9). That process provides a continuing source of funds, which allows producers to keep on selling and consumers to keep on buying.

↑
great
connections
to all sources
of information
used in lesson
- visual
- video
- article
- TDQ

The Role of the Fed - Student Re

Keeping prices **stable** is part of the job of the Federal Reserve, which was created by Congress in 1913. There had been two attempts at **establishing** a central bank in the United States in the 19th century, **but politics killed them** even though they were successful. Back then, state-chartered banks issued their own paper money backed only by their individual gold and silver reserves. As a result, there were once more than 10,000 different kinds of bank notes in circulation.

Suppose you owned a store in those days. How would you know which banks had enough gold reserves to make their currency worth its **face value**? Should you decrease the value of bills from a weaker bank? And how would you keep track of all those bank notes? You can imagine the shopkeeper's **dilemma**. If a bank went broke, its currency was instantly worthless, and those who held its notes could lose everything.

Naturally, people hurried to withdraw their money at the first hint of trouble in the economy. The **result** was **periodic financial panics** that could **devastate** the national economy for years. Finally, after a **particularly** bad panic in 1907, Congress decided to solve the problem. In 1913, it **established** the Federal Reserve System to provide for a safer and more **flexible** banking and monetary system.

With the Fed as safeguard, banks can perform their proper role of bringing savers and borrowers together for the benefit of both. For any economy to be successful, a country **first needs political stability** so its citizens feel safe; then it needs a **stable financial system** that includes both **trustworthy money** and **reliable financial institutions**. Healthy, profitable banks, therefore, are a vital part of the nation's **economic welfare**.

Banks provide many services, but for most people, banking **consists** of depositing their income into a checking account and writing checks or using a debit card on that account to buy things that cost more money than they want to carry in their wallets. People also have savings accounts in which they deposit money they don't need right away or they are saving for a **particular** purpose. The bank pays interest, or a price paid for use of the money, on savings accounts and often on checking accounts, too.

Very little of this money is kept in the bank's vault, however. While the Federal Reserve requires banks to keep a **specified** percentage of customer deposits on hand (reserves) to meet routine withdrawals, they lend the excess. Banks, like any other business, must make a profit **to stay in business**. Their profit comes from interest people pay on the money they borrow.

9/23/13
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state-chartered
organized and maintained
by individual states

bank notes
paper currency

financial panics
urgent concern for safety of
personal money

safeguard
form of protection

vital
necessary

vault
safe holding place within the
bank

reserves
funds which cannot be
loaned

excess
unused funds

The Role of the FED

Central Bank - The key (main) bank

face value - What you have (reserve) to back the money up.

• Political stability is when political leaders are safe and "agreeing"

Recession

FED - ↑ \$ supply
↳ Reserve 10%

Normal

Fed - money supply not changed
↳ Reserve 20%

Inflation

Fed - ↓ \$ supply
30%

↳ In a recession banks
lend more and keep
less

In inflation banks lend less and keep more.

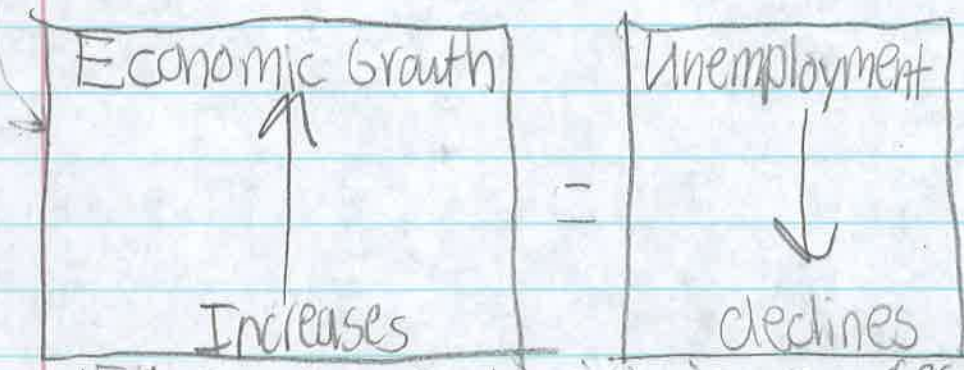
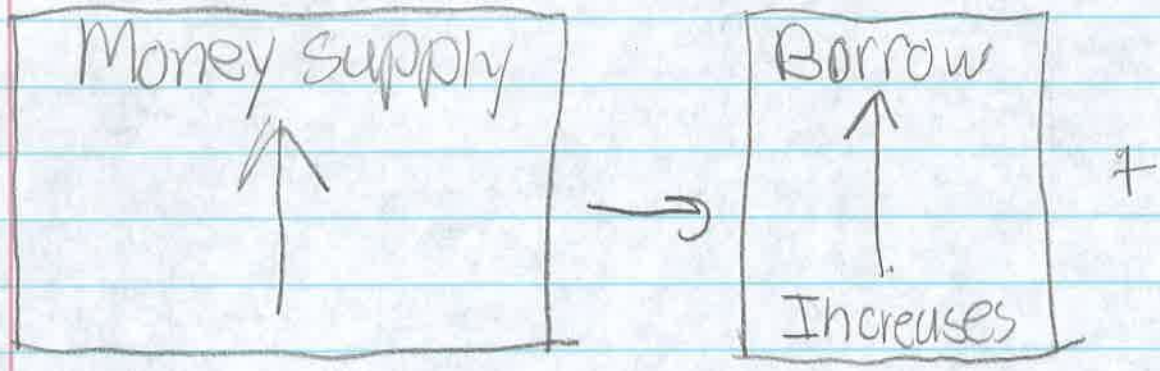
FED - Balance the money supply and keeping prices stable.

Important

9/17/13

Federal Reserve Bank Notes continue

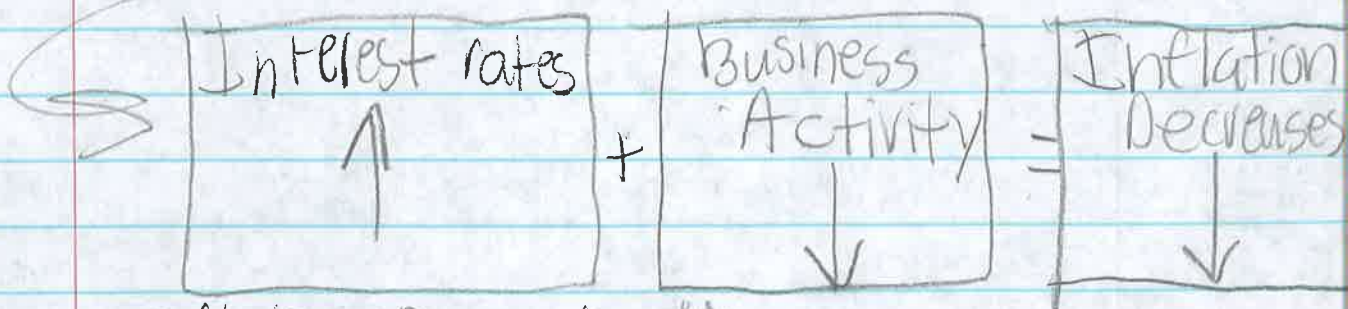
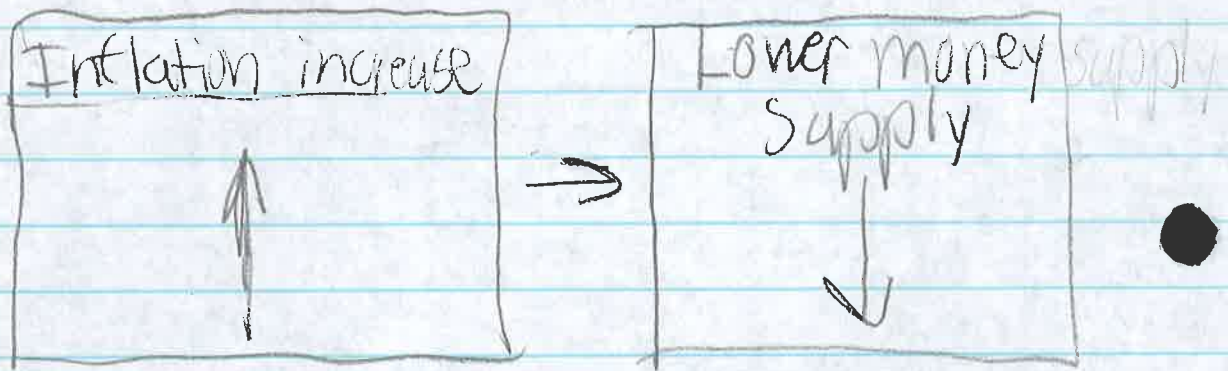
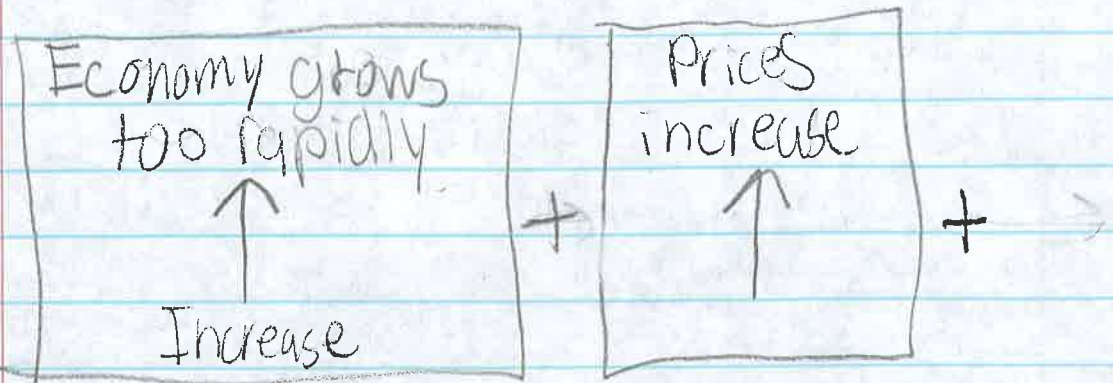
Recession



Federal Reserve's job in a recession is to increase the money supply so that spending and borrowing goes up, while unemployment goes down.

FRB job in inflation is to decrease the money supply so that spending and borrowing goes down so inflation decreases

Inflation = Prices go up



Inflation - Prices Go Up

Deflation - Prices Go Down

Disinflation - Slowing down of inflation

Max Medroso

Text Dependent Questions
Student Handout
The Role of the Fed

Handwritten notes on a yellow sticky note at the top right of the page.

Balance
The amount of money...

Text
Keeping prices stable is part of the job of the Federal Reserve, which was created by Congress in 1913. There had been two attempts at establishing a central bank in the United States in the 19th century, but politics killed them even though they were successful.

"Keeping prices stable is part of the job of the Federal Reserve." - Paragraph 1 sentence 1
Their job is to keep prices stable

Paragraph 1 sentence 1
The government couldn't agree to keeping a central bank.

In the opening paragraph, the Author uses the phrase "but politics killed them..." What do you think the Author means by this?

Back then, state-chartered banks issued their own paper money backed only by their individual gold and silver reserves. As a result, there were once more than 10,000 different kinds of bank notes in circulation.

Suppose you owned a store in those days. How would you know which banks had enough gold reserves to make their currency worth its face value? Should you decrease the value of bills from a weaker bank? And how would you keep track of all those bank notes? You can imagine the shopkeeper's dilemma. If a bank went broke, its currency was instantly worthless, and those who held its notes could lose everything.

The problem was that it was hard to keep track of all the different bank notes and that if a bank went broke, its currency was worthless and that person could lose everything.

Also, it will be hard to know the value of the money
Paragraph 1 sentence 4
Paragraph 2, sentence 2

In paragraph 2, the Author speaks of a "dilemma" faced by the shopkeepers.

What do you think shopkeepers may have had to do? What supports your answer?

"How would you keep track of all those bank notes?"
"Should you decrease the value of bills from a weaker bank?"
Paragraph 2, sentence 3, 4

Banks provide many services.... People also have savings accounts in which they deposit money they don't need right away or they are saving for a particular purpose. The bank pays interest, or a price paid for use of the money, on savings accounts and often on checking accounts, too.

Very little of this money is kept in the bank's vault, however. While the Federal Reserve requires banks to keep a specified percentage of customer deposits on hand (reserves) to meet routine withdrawals, they lend the excess.

1) "The bank pays interest, or a price paid for use of the money."
People get money from interest
Banks get to use money

2) The FED uses reserves to meet routine withdrawals.
The FED requires banks to keep a specified percentage of customer deposits on hand to meet withdrawals.

• What evidence from the text supports your answer?

Why does the Federal Reserve require banks to keep "a specified percentage of customer deposits on hand (reserves)"? Support your answer with evidence from the text.