

Take a Seat at the Table: An FOMC Simulation

Lesson Description

In this lesson, students are given the opportunity to play the role of a Federal Reserve Bank president in two aspects of a Federal Open Market Committee (FOMC) meeting: the policy discussion and federal funds target rate recommendation.

The lesson begins with a discussion of the Federal Reserve's dual mandate of maximum employment and stable prices. Using a timeline, students will be introduced to legislation that governs monetary policy. After a brief review of the Federal Reserve System's structure, students will see how the FOMC uses the anecdotal information contained in the Beige Book to inform policy decisions.

Students will read and evaluate the anecdotal information contained in the Beige Book, then conduct a policy discussion and write a press release explaining their assessment of economic conditions and the policy action agreed upon during the simulation.

Instructional Objectives

Students will:

- Identify the role of the FOMC in formulating monetary policy.
- Identify the legislative origins of the structure and goals of the FOMC.
- Analyze anecdotal information from the Beige Book to assess the risk that the economy will not meet the national economic goals.
- Create an FOMC statement that contains a policy recommendation.

Time Required

Two 50-minute class periods

Materials Required

- Lesson visuals (download at www.dallasfed.org/educate/everyday)
- Copies of one section of a Beige Book report for each student
Note: The Beige Book can be found on the Federal Reserve Board of Governors website at www.federalreserve.gov under Monetary Policy. The report can be downloaded as a PDF that contains an introduction and 12 sections corresponding to individual Federal Reserve Districts. Each student needs only one section, not the entire document.
- Copies of Handout 1 and 2 for each student
- Classroom set of *Everyday Economics: The Federal Reserve*, available at no cost at www.dallasfed.org/educate/everyday.

Procedure

Day One

1. **Display Slide 1.** Tell students that the topic of the lesson is the Federal Reserve and monetary policy.
2. **Display Slide 2.** Review the instructional objectives for the lesson.
3. **Display Slide 3.** Use the definition on the slide and the information below to define monetary policy and discuss three important parts of the definition.
 - Discuss the words **“central bank.”**
 - The central bank is the financial institution, charged by the government, to oversee the monetary system of a nation or group of nations.
 - There are central banks throughout the world. They vary in structure and activities.
 - The central bank of the United States is the Federal Reserve System.
 - Discuss the words **“availability and cost of money and credit.”** Central banks affect interest rates by affecting the ability to make loans.
 - As the ability of the financial system to make loans grows (and the supply of loans rises), the price of loans (interest rates) fall.
 - As the ability of the financial system to make loans is reduced (and the supply of loans decreases), the price of loans (interest rates) fall.
 - Discuss the words **“national economic goals.”**
 - National monetary goals are set, generally, by the government that created the central bank.
 - The central bank has the unique mandate and power to influence the nation’s money and credit to promote the goals set by government.
 - In the United States, the Federal Reserve System is charged with promoting stable prices and maximum employment.
4. **Display Slide 4.** Use the graphics and the information below to review the three-part structure of the Federal Reserve System.
 - The **Board of Governors** is the national part of the system. The seven governors are appointed by the president and confirmed by the U.S. Senate. The Board is located in Washington, D.C.
 - There are 12 regional **Federal Reserve Banks** located throughout the country. Each Bank has its own president, appointed by the Bank’s board of directors and confirmed by the Board of Governors.
 - Monetary policy is set by the **Federal Open Market Committee**, or FOMC. The FOMC has 19 members: 12 Regional Reserve Bank presidents and seven governors from the Board of Governors. The FOMC uses input from the presidents and governors to carry out monetary policy.

5. Display Slide 5. Use the information on the slide below to describe the Beige Book.

- At each of the FOMC meetings, the members consider both statistical and anecdotal information when making policy decisions.
 - Statistical information includes a wide range of economic indicators relating to employment, prices and production. Examples include the unemployment rate, the inflation rate, gross domestic product (GDP) and growth rate.
 - Anecdotal information consists of personal observations of current economic conditions by Bank and branch directors, key business contacts, economists, market experts and other sources.
- All 12 Reserve Banks write a narrative that includes the anecdotal information reported in their district.
 - The 12 narratives are compiled into a single report with a national summary. The report is called the Beige Book.
 - The Beige Book is released approximately two weeks prior to the eight regularly scheduled FOMC meetings each year.
 - Current and historical Beige Books can be found on the Board of Governors site at www.federalreserve.gov under Monetary Policy.

6. Display Slide 6. Use the information on the slide and below to explain the two risks the FOMC considers when making a decision about monetary policy.

- Remind students that risk implies that economic conditions could harm the overall health of the economy. For the Federal Reserve, the risk assessment is related to conditions that could lead to missing one of the two primary goals, stable prices and maximum employment.
 - **Upside risks** refer to conditions that threaten stable prices. In particular, events that could cause the overall price level to rise would be categorized as upside risks.
 - **Downside risks** are conditions that could lower levels of employment (or create unemployment).
- The FOMC makes policy recommendations based on the committee’s assessment of the balance of these two categories of risks.

7. Display Slide 7. Use the information on the table and the information below to explain phrases that are used in the Beige Book.

- Point out the bolded words on the “Upside Risks” column. These are examples of the words used to imply risks to rising prices in the economy.
- Point out the bolded words on the “Downside Risks” column. These are examples of the words used to imply risks to maximum employment in the economy.

Tell students that they are going to act as the president of a Federal Reserve Bank and bring the information from their Bank's Beige Book to the discussion of the FOMC. Divide the class into 12 groups. Assign each group a Federal Reserve District.

Distribute copies of Handout 1 (5 pages) **and the chapter of the Beige Book** corresponding to the group's assigned Federal Reserve District. Each group should fill out page 1 of Handout 1 using information on upside and downside risks found in the Beige Book. Tell students to wait to make a policy recommendation. Allow students 15–20 minutes to complete the group assignment.

- 8. Display Slide 8.** After groups have finished reading and taking notes, have one representative from each group present the group's findings on economic conditions and balance of risk for the district. Each spokesperson should use the template on the slide and page 2 of Handout 1 for the presentation.

All students should use page 3 of Handout 1 to take notes about the other 11 districts. This information will be used for the policy vote.

Day Two

- 9. Display Slide 9.** Review the information presented in the prior class. Tell students to confer in their groups to consider all of the information from individual districts gathered on page 3 of Handout 1. Each group should assess the balance of risk for the whole nation.

- Do economic conditions indicate that upside risks are more significant?
- Do economic conditions indicate that downside risks are more significant?
- Do economic conditions indicate that upside and downside risks are balanced?

Based on this assessment, each group should make a policy recommendation. There are three policy options: up, down or no change.

- If upside risks are more significant than downside risks, the Reserve Bank president could recommend that the committee raise the target federal funds rate.
- If downside risks are more significant than upside risks, the Reserve Bank president could recommend that the committee lower the target federal funds rate.
- If the risks are balanced and low, the Reserve Bank president could recommend that the committee maintain the current target federal funds rate.
- If both risks are high, the Reserve Bank president must make a decision about which risk to address and recommend the appropriate change to the target federal funds rate.

Tell students to document their decision on page 4 of Handout 1. Then use page 5 of Handout 1 to record the decision of each Regional Bank.

10. Display Slide 10. Use the graphic on the slide to identify the components of a press release issued following an FOMC meeting to communicate the policy decision.

Assessment

11. Distribute Handout 2. Have students work in the Reserve Bank groups to construct a partial FOMC statement based on the information from the discussion during the simulation. Remind students that the statement must include three components of an actual FOMC statement.

- Summary of economic conditions
- Assessment of the balance of risks between upside and downside risks
- Policy action: change in the target for the federal funds rate

Closure

12. Print the actual FOMC statement associated with the Beige Book that the students analyzed from www.federalreserve.gov. Read each section to the students and compare the statement to the information found in the Beige Book and included in their press releases.



Take a Seat at the Table is a lesson plan that supports *The Federal Reserve*, part of the Federal Reserve Bank of Dallas' Everyday Economics series.

Visit dallasfed.org/educate to explore other Economic Education resources.

Handout 1

Name: _____

Federal Reserve District Number: _____ Federal Reserve City: _____

As you read your section of the Beige Book, look for evidence of the possible economic threats that are faced in your Federal Reserve District. Record them on the table. You might have information in both columns, or you might have evidence in only one.

Threats to stable prices (Upside Risks)	Threats to maximum employment (Downside Risks)

When you consider your entire report, which risk do you think is the most significant in your district?

Upside risks **Downside risks** **Both upside and downside risks** **No risks**

Using the information in your section of the Beige Book and your notes in the table above, list the three strongest pieces of evidence for your assessment of the balance of risks.

1. _____

2. _____

3. _____

Take a Seat at the Table

Hello. I am the President of the Federal Reserve Bank of _____.

Our Bank believes that the balance of risk is weighted to the

- Upside risks**
- Downside risks**
- Both upside and downside risks**

- We do not see significant economic risks**

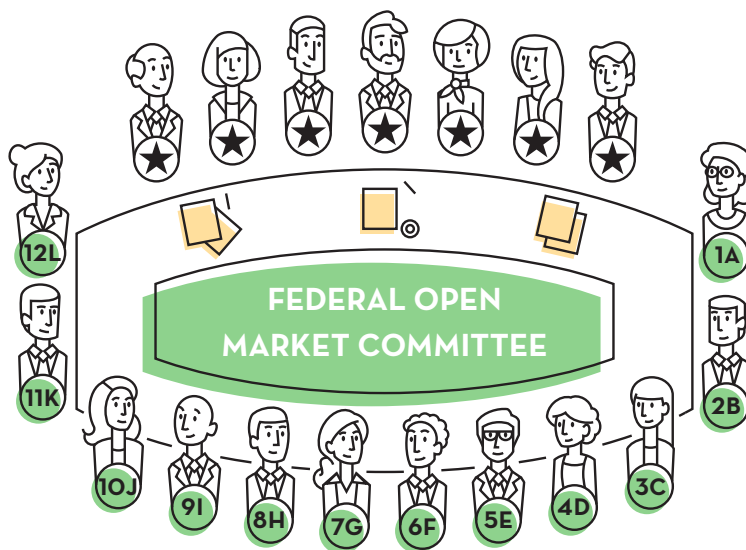
We made this risk assessment based on the following information from our Beige Book:

1. _____

2. _____

3. _____

Thank you.



Take a Seat at the Table Notes

1A Boston

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

5E Richmond

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

9I Minneapolis

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

2B New York

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

6F Atlanta

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

10J Kansas City

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

3C Philadelphia

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

7G Chicago

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

11K Dallas

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

4D Cleveland

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

8H St. Louis

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

12L San Francisco

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

Policy Discussion

After you have heard from all of the Federal Reserve presidents, would you change the target federal funds rate?

- Raise** **Lower** **No Change**
-

Hello. I am the President of the Federal Reserve Bank of _____.

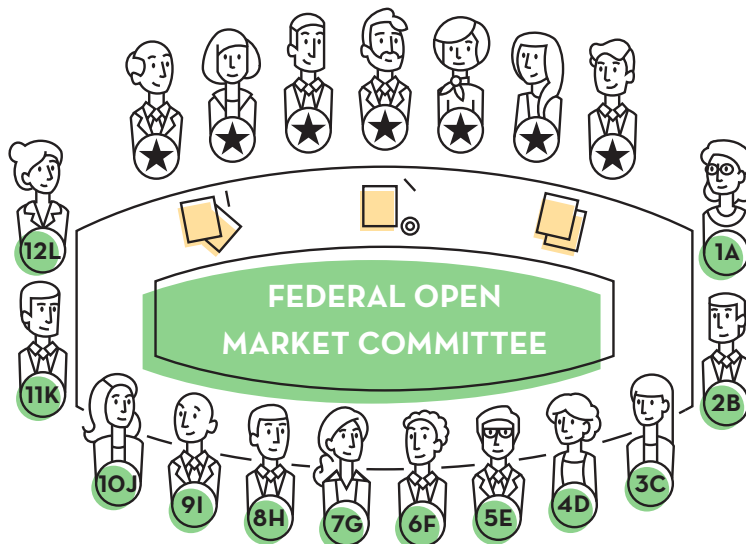
After hearing from all 12 districts, I believe that the nation's economic risk is weighted to the

- Upside risks** **Downside risks** **Both upside and downside risks**
 We do not see significant economic risks

I would

- Raise** **Lower** **No Change** *to the Federal Funds target rate.*

Thank you.



Policy Discussion Votes

1A Boston

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

Raise Lower No change

5E Richmond

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

Raise Lower No change

9I Minneapolis

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

Raise Lower No change

2B New York

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

Raise Lower No change

6F Atlanta

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

Raise Lower No change

10J Kansas City

- Upside risks
- Downside risks
- Both upside and downside risks
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Raise Lower No change

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8H St. Louis

- Upside risks
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Raise Lower No change

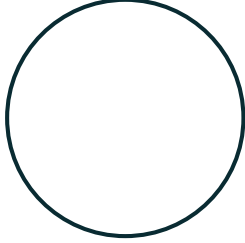
12L San Francisco

- Upside risks
- Downside risks
- Both upside and downside risks
- We do not see significant economic risks

Raise Lower No change

Handout 2

Name: _____

<h1>PRESS RELEASE</h1>		
<p>Policy Action: _____</p> <p>_____</p> <p>_____</p> <p>_____</p>		
<p>Economic Conditions: _____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>		
<p>Balance of Risks: _____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>		