

## THE FEDERAL RESERVE: WHAT IS IT AND HOW DOES IT WORK?

### LESSON PLAN

#### Objectives

- Students will be able to describe what the Federal Reserve does.
- Students will be able to explain the advantages and disadvantages of the Federal Reserve.
- Students will be able to evaluate and debate how successful the Federal Reserve has been in its goals.

#### Materials

ARTICLE: [What is the Federal Reserve? Pros and Cons](#) discusses the history, purpose, negatives, and positives of the Federal Reserve.

VIDEO: [What's the Deal with the Federal Reserve?](#) highlights three significant problems with the Federal Reserve system.

HANDOUT: [Debate information sheet](#) describes three arguments for the Federal Reserve and three against.

HANDOUT: Video [comprehension quiz](#).

HANDOUT: Video [discussion questions](#).

#### Suggested Procedure

1. Ask students how they think the US monetary system is run – who decides on policy, who is in charge of currency, etc. Give students a few moments to come up with their answers. They may create a flowchart or diagram to help consolidate their ideas. Ask what they know about the Federal Reserve, for example how it works, what it is for, and who runs it. Do they know anything about it?
2. Present the article [What is the Federal Reserve? Pros and Cons](#). This may be read from the internet or printed so that students can read a copy individually or in groups.
3. Ask students what they read in the article and ask comprehension questions. Collate the statements and ask if they see any themes that stand out.  
Suggested comprehension questions:
  - When was the Federal Reserve created? Why?
  - What was the Panic of 1907?

- Which president signed it into law?
- What problems was the Federal Reserve created to solve?
- What is a nickname for the Federal Reserve?
- What were its original three core missions?
- What additional tasks has it gained?
- How many regional Federal Reserve banks are there? Where is it based?
- Is the Federal Reserve a part of the US government?
- What are some advantages of the Federal Reserve system?
- What are some disadvantages?

4. Show video [What's the Deal with the Federal Reserve?](#)

Suggested places to stop and ask questions:

- 0:35 – Can students name the dates of any other financial crises since then? If so, do they know what caused them?
  - 0:57 – Do the students feel President Woodrow Wilson achieved his goal?
  - 1:25 – What do the students think about this lack of accountability?
  - 1:41 – Do the students think this policy is better for America or for international banking?
  - 2:03 – Can the students suggest ways in which this power could be abused?
  - 2:40 – Can the students describe what booms and busts are?
  - 2:55 – Ask the students what they think happens to their existing money when the Federal Reserve prints new money.
  - 3:43 – Ask students why they believe dollars are no longer backed by gold or silver as directed by the Constitution.
5. Have the students recall what the three primary purposes of the Federal Reserve were; discuss these and debate whether they have been achieved.
6. Hand out the [debate information sheet](#) and allow students to read individually or as a group.
7. Have students complete the [comprehension quiz](#).
8. Have students complete the [discussion handout](#) individually or in groups.

*Extension:* Research project. Students research what real-world impacts decisions made by the Federal Reserve have on themselves. They can present the information in a short spoken report.

*Extension:* Read the article [How is the US Dollar Made?](#) and create a simple fact sheet either on paper or on a computer that could be used by another student to understand what the dollar is. The fact sheet should be informative, easy to follow, and written in the student's own words.



## What's the Deal with the Federal Reserve?

The economy affects key aspects of families' everyday lives, including how much money they have, how they can spend it, and what jobs are available. Despite this, many people go through life without finding out how the economy is actually controlled. These days, many countries have central banks that govern economic and monetary policy – in the USA, that body is called the Federal Reserve.

*In the video "What's the Deal with the Federal Reserve," you heard **three reasons** to worry about the Fed. These were:*

**1. No accountability:** The Fed is not a part of the US government. It does not need to get government approval for its decisions. Since the Fed doesn't need to get approval from elected officials, it answers to no one.

**2. No transparency:** Some people worry that the Fed works in secrecy, since it receives little oversight from Congress.

**3. It allows big risks:** Fed policy enables banks and financial institutions to take big risks because they are protected from the consequences. During the 2008 economic crisis, the Fed used billions of dollars to rescue failing banks in huge "bail outs," showing that banks can take risks and do not need to worry about going out of business if things don't go well.



*Now, let's look at **three reasons** to support the Federal Reserve:*

**1. It keeps prices stable:** Central banks like the Federal Reserve work to keep the prices of goods and services stable, and maintain the value of currency – in this case, the US dollar. Imagine if prices were unstable and the cost of a loaf of bread became so expensive that most people could no longer afford this staple item – this has happened before in history! When the

prices of goods and services rise, it is called inflation. The Fed works to control and minimize inflation, which can make even basic necessities unaffordable in some instances.



**2. It promotes the US dollar:** The Fed allowed the US dollar to become one of the most reliable currencies around the world, so that it became accepted almost anywhere. In fact, the Federal Reserve prints all US banknotes (while coins are made at the United States Mint).

**3. Economic stability:** The Fed was first created to keep the economy stable. Although it may not always be successful

at stopping economic crises, some people argue that the Fed is still better than nothing. It is the Fed's job to ensure that banks can survive. It performs stress tests to help determine whether a bank has enough money to handle economic problems.

# What's the Deal with the Federal Reserve?

**Test Your Knowledge:** Answer the questions based on the video and information sheet, "What's the Deal with the Federal Reserve?"

- 1. When was the Federal Reserve passed into law?
  - a) 1907
  - b) 1913
  - c) 1999
  
- 2. The Federal Reserve is the \_\_\_\_\_ of the USA.
  - a) central bank
  - b) business bank
  - c) Department of Treasury
  
- 3. The Federal Reserve was created in response to the \_\_\_\_\_.
  - a) 2008 financial crisis
  - b) Great Depression
  - c) Panic of 1907



4. The Federal Reserve is a part of the US federal government; its policies are approved by Congress and the president. True / False

5. What are three reasons not to have a Federal Reserve?

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6. What are three reasons given to support the Federal Reserve?

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# What's the Deal with the Federal Reserve?

*Discussion: Answer the questions based on the video and information sheet, "What's the Deal with the Federal Reserve?" What is your opinion on the Fed?*

1. Do you think countries need a central bank like the Federal Reserve?

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2. Should the Fed be subject to oversight from Congress? Why or why not?

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5. Do you think the Fed provides any valuable services to America? If so, what? If not, why not?

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6. Have changes in the economy ever affected you, your friends or your family? How so?

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7. Imagine you are a central banker at the Fed. What policies would you put in place to improve America's economic and monetary system?

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