

Lesson 13: The Policy of Personal Choice

TOPIC: Understanding the Economy

OVERVIEW:

Understanding economic conditions empowers students to make smart financial choices regardless of the economic circumstances they face in their lifetimes. Because financial decision-making rarely happens in isolation, and is instead a combination of economic forces and personal choices, understanding the broad contexts of the economy is a critical component of building a well-rounded financial perspective. This lesson explores **monetary** and **fiscal policy** and why it is important to pay attention to economic conditions.

OBJECTIVES:

1. Understand how the economy impacts personal financial choices
2. Summarize monetary and fiscal policy
3. Understand inflation
4. Understand economic cycles

INDIVIDUAL HANDOUTS:

- You're in Charge!*
- Economic Future*

TEACHER PRESENTATION SLIDES:

- Economic Cycles
- Fiscal Policy
- Monetary Policy

ESSENTIAL QUESTIONS:

- What are monetary and fiscal policies and how do they relate to me?
- How do economic conditions influence me?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Slide:** Inflation

Post-Assessment:

- **Handout:** You're in Charge!
- **Handout:** Economic Future

Time: 55 min

Subject Connections:

- Social Studies
- English Language Arts

Supplies:

- Projector (for teacher presentation slides)
- Access to the Internet (optional)

Preparation:

- Make copies of student handout
- Set up projector with presentation slides

Glossary with key vocabulary 11

***Money Smart Portfolio Handouts**

Instruction Steps

WARM UP Inflation

15 MINUTES

Begin the lesson by asking students if they know what a “Five and Dime” store is.

Explain that they were variety stores that sold an array of products, from candles to soda to candy — all for only a nickel or dime! Tell students that, in the past, you could buy a soda for five cents, but today that same soda costs well over a dollar.

Why is this?

Invite students to share their ideas and explain that **inflation** is when the items we buy increase in price. That same soda you purchase today for a little over a dollar may cost more than two dollars in the future because of inflation.

MONEY SMART TIP!

Have students compare inflation rates on items over time.

For example, how much did a loaf of bread cost in 1950 compared to today? Discuss how inflation rates have changed over time by reviewing a table of historical interest rates, such as the one found at www.usinflationcalculator.com/inflation/historical-inflation-rates/.

GUIDED EXPLORATION Monetary And Fiscal Policy

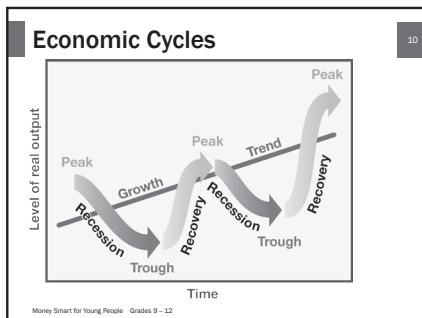
15 MINUTES

Continue to engage students in a discussion about inflation and ask them to consider what would happen if that same five-cent soda went up to today’s price not in a matter of decades, but in a matter of days. What would be the consequences of this?

Explain that the government is able to control, to some degree, the level of inflation to help keep the economy stable.

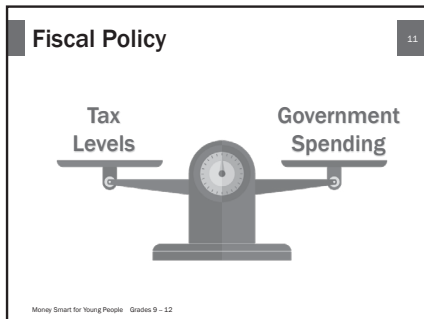
Display the **Economic Cycles** slide and explain that the economy goes through cycles of growth and recession. Ask students whether they are familiar with the term “recession” and what they know about it.

Invite volunteers to share their ideas and explain that low national levels of income and employment are what lead to a recession.



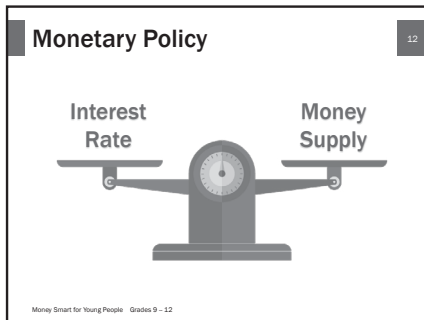
MONEY SMART TIP!

Share with students the Federal Reserve’s website at www.federalreserve.gov. Discuss the purpose of the Federal Reserve and explain that it is the central bank of the United States and was created by Congress in 1913 to provide a safe and stable monetary and financial system.



Display the **Fiscal Policy** slide next and tell students that one way the government helps to regulate the economy is through fiscal policy.

Explain that fiscal policy is essentially the government’s budget, and, in the same way individuals make a budget for their income and expenses, the government does too. The government’s “income” is in the form of collected tax dollars and its “expenses” are in the form of government spending for programs, schools, highways, and so on.



Next, display the **Monetary Policy** slide and tell students that another way the economy can be regulated is through monetary policy, which is when the Federal Reserve influences the growth of money supply when economic conditions are slow.

Explain that the goal of monetary policy is to balance recession factors like unemployment with rising costs of inflation.

Ask students to think about how monetary policy works.

How does the Federal Reserve achieve balance?

Explain that adjusting credit is a key factor. For example: when interest rates are low, that means that credit is less expensive and more people and businesses are able to obtain credit and use it to purchase large items like homes (or for businesses, to invest in new developments and expand). This, in turn, creates economic growth. Likewise, high interest rates on credit make it challenging for consumers and businesses to afford it, thus limiting their buying capabilities and slowing the economy down.

MONEY SMART TIP!

Help students understand that it is not only important to think about money on a personal level, but also on a national and international level. Guide students in seeing the value of building a global landscape for their financial understanding, because what happens to money all around the world does have an impact on the U.S. economy. Advise students to pay attention to policies and to read the news, because it matters all the way to the bank...their bank!

Ask students how they think interest rates might impact them personally. Invite volunteers to share their ideas and tell students that, even though policies may seem distant from us, the consumers, they impact our lives in very meaningful ways.

For example: if you need to take out a loan to pay for college, the rate at which you can borrow money can dramatically influence the final cost to you. If interest rates are low, you will be able to borrow money at a much lower cost than if interest rates are high.

Grade-Level Modifications:

Beginner: Have students spend additional time discussing inflation and understanding why \$1 in 1950 does not have the purchasing power of \$1 today. For example, have students select an item that interests them and examine inflation for that item over time using a web resource such as <https://data.bls.gov/cgi-bin/surveymost?ap>.

Advanced: Expand the lesson to discuss business cycles and the patterns of economic booms and recessions.

INDEPENDENT EXPLORATION You're In Charge!

20 MINUTES

Note: These activities are more independent than the Guided Exploration activities and may be used as homework assignments, collaborative group work, or independent study.

Ask students:

- *What they would do if they were in charge of monetary policy.*
- *Would they know how to balance recession and inflation?*

Tell students they will get a chance to manage monetary policy by playing the Fed Chairman Game at <http://sffed-education.org/chairman/>.

Distribute the *You're in Charge!* handout and remind students that their goal is to control monetary policy and work to keep inflation low and stable while balancing the unemployment rates. Allow students at least ten minutes to play the game and then additional time to answer the follow-up questions.

After students have used the game to assess their monetary management skills, reconvene as a class and ask for volunteers to share their results.

- *Were they successful in managing monetary policy?*
- *Unsuccessful? Under what conditions did inflation or unemployment rise?*

Close the discussion by reminding students about the importance of paying attention to economic policies and current events, since they have the ability to affect each individual's ability to borrow and buy.

WRAP UP

Economic Future

Close the lesson by distributing the *Economic Future* handout and allow students time to complete it.

5 MINUTES

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

How would you budget income and expenses if you were in charge of the U.S. government's budget?

What do you think is the best way to stimulate economic growth? Is it possible to overstimulate the economy? Why or why not?

Suggested Readings:

Monetary Policy Principles and Practice: An exploration of the principles of sound monetary policy.

www.federalreserve.gov/monetarypolicy/monetary-policy-principles-and-practice.htm

America First: A Budget Blueprint to Make America Great Again: An overview of President Trump's budget, including categories of spending.

www.whitehouse.gov/wp-content/uploads/2017/11/2018_blueprint.pdf

MATHEMATICS

Activity/Project Ideas:

Have students calculate inflation rates for different goods and services. For example: if a bag of apples costs \$3.99 today, what will it cost next year? In five years? In ten years?

SOCIAL STUDIES AND ECONOMICS

Discussion Topics:

Have students research and analyze how business models such as dollar stores handle inflation when every item remains for sale at \$1. How are they able to maintain low prices?

Challenge students to analyze historical examples of policy changes and the impact they had on the economy.

TECHNOLOGY

Online Resources:

Monetary Policy: Part Art, Part Science by the Federal Reserve Bank of Atlanta: A video (9 min.) exploring both the science and art of monetary policy.

www.frbatlanta.org/education/monetary-policy-art-science/video.aspx

The Budget of the U.S. Government: A web resource detailing the U.S. government's budget. www.whitehouse.gov/omb/budget/

Activity/Project Ideas:

Have students conduct research and create an infographic of inflation on items they personally value, such as electronics, sporting goods, or clothing. Students may use a digital infographic creator such as www.canva.com.

Answer Key

Student Handout 1:

You're in Charge!

Answers will vary.

Use handout to assess student ability to analyze the impact of their choices in the game.

Student Handout 2:

Economic Future.

Answers will vary.

Use handout to assess student ability to understand inflation as it relates to their lives and the ability to reflect on how economic conditions can personally impact one's borrowing and buying power.



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YOU'RE IN CHARGE!

Name: _____

What would you do if you were in charge of monetary policy? Would you know how to balance recession and inflation? Visit the Fed Chairman Game at <http://sffed-education.org/chairman> and try your hand at managing monetary policy. When you are finished, analyze your results and answer the questions below.

How successful were you in keeping inflation low and stable while balancing unemployment rates?

What headlines did you get? What did the headlines tell you about your management strategies?

Under what circumstances did inflation rise and fall?

Under what circumstances did unemployment rise and fall?



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ECONOMIC FUTURE

Name: _____

Directions: Write a brief, one-page reflection answering the following questions.

- *What prices have you witnessed rise or fall in your life so far?*
- *Are there items you used to buy at lower prices that are now more expensive? Why do you think the cost has gone up?*
- *How do you think prices will change in the future?*
- *How will economic conditions affect your financial decisions, such as whether to borrow money or make a large purchase?*