

ECONOMY & THE FED

Resources and Information for Educators

Spring 2002

A Closer Look at Personal Finance

By Andrea Rohrke

Help Students Become Financially Responsible

“Would you like to apply for a line of credit and receive an extra 10 percent off all your purchases today?”

You are probably accustomed to hearing those words while shopping. Today, it is difficult to think of a major chain store that doesn't offer its own in-house credit card.

But what if you were a young person, away from home for the first time, and an extra 10 percent off the

CDs and clothes you wanted seemed too good an offer to refuse? Or, what if the promise of your very own, independent emergency fund (not to mention free T-shirts, water bottles, and frisbees) at a friendly stand in front of your college bookstore only required you to “fill out a few forms?”

Now imagine that your income consists of a minimum wage job at the local record store, your credit cards have a balance due of \$5,000, and your bank account has a painfully earned balance of \$150.

The above scenario happens all too often. The reality is that, as a group, young people are dangerously over their heads in newfound financial “freedom”—otherwise known as debt. As marketers invest millions trying to seduce young people with special credit card offers, it is all too easy for some young people to give in to their purchasing cravings. As San Diego State University student Alison Hultman plaintively mused recently, “I’m a starving college student. Sometimes a girl wants to go out to a nice meal, or buy a new pair of pants.”

Simple clothing purchases can be expensive, and not just because of the status of a designer's name. Compounding interest on credit cards adds up quickly and, often, people don't realize this until it's almost too late. Today, with 41 percent of college freshmen already holding a credit card in their own name and 78 percent of undergraduates holding three credit cards, the average credit holder under age 25 owes a debt of \$2,748—a debt that has doubled since 1993.

Furthermore, 100,000 young people under age 25 filed for bankruptcy in 2000, according to Harvard University professor Elizabeth Warren, and the rate has doubled since 1991. With reports mounting of young people abandoning school to pay off debts or even, in one known case, committing suicide in desperation, there is little doubt that something must be done to constructively empower our youth so they don't have to learn about earning, spending, saving, and investing through trial and error.



Did you know?

In 2000, 100,000 young people under age 25 filed for bankruptcy.

In this issue, we hope there's something for everyone. We've highlighted several ideas and teaching resources for you. April is “Financial Literacy for Youth Month,” and our lead article offers some insights into how to help your students manage their finances and become wise consumers as they enter adulthood. If your school holds any special programs on personal finance during the month of April, send us a note or some photos as we'd like to share successful stories with other teachers.

We invite you to try some of these products and programs and submit future ideas for workshops, articles, or teaching tips. You can contact your local Branch Public Information staff or write directly to the editor at: sharon.strahm@sf.frb.org.

We also hope you'll share this newsletter with anyone you think may be interested. Back issues are available online.

If you would like to receive this free newsletter in the future, be sure to sign up at: www.frbsf.org/education/newsletter

Fun Facts and Trivia

There's nothing like a little trivia to spur a classroom discussion. Try these for starters:

Why would a bank shred over \$500 million a day?

To keep the nation's cash supply in good condition, the 12 Banks in the Federal Reserve System shred old, unfit money as part of "business as usual" and replace it with fresh currency every day. Students can learn more about "why the Fed destroys old money" and other Federal Reserve functions on the Fed's economic education website: www.FederalReserveEducation.org.

What is the average life of a \$100 note?

A \$100 note usually lasts about nine years. In comparison, a \$1 note lasts only 18 to 22 months and a \$1 coin may last up to 40 years! To learn more interesting tidbits about money, including the origins of the "\$" sign and how to identify counterfeits, check out the website from the Bureau of Engraving and Printing at www.bep.treas.gov.

Upcoming Calendar of Events

California Council for the Social Studies (CCSS) Annual Conference; March 1-3; Riverside, California. "With All Deliberate Speed: Mastering literacy, standards, and assessment." Session topics include technology, geography, economics, literacy, civics and government, and history. www.ccss.org. Registration fee.

Conference for the Social Science Professional Organization Consortium (SSPOC); March 1-3; Glenden Beach, Oregon. Covers various social studies subjects. (503) 375-5447. Registration fee: \$87. Mail to: SSPOC at OIC, PO Box 111, Salem, OR 97308.

Workshop on Problem-Based Economics; March 7-8, June 20-21, September 26-27, November 14-15; Novato, California. Learn engaging and meaningful ways to teach students core economic principles using problem simulations. Covers the Voluntary National Content Standards in Economics for high school seniors. Contact the Buck Institute for Education at (415) 883-0122. www.bie.org Cost: \$250.

Rocky Mountain/Great Plains Regional Social Studies Conference; March 7-10, Las Vegas, Nevada. Network with other social studies teachers and share new ideas. (702) 396-5067 or email: Stephanie.A.Hirsch@interact.ccsd.net. Registration fee.

Spring Social Studies Retreat: Rediscover the Relevance of Social Studies; March 8-10; Lake Chelan, Washington. Any social studies teacher can learn more about history, world trade, citizenship, and geography *plus* other topics. Contact the Washington Council for Social Studies at (509) 573-2664. www.learningspace.org/socialstudies. Registration Fee: \$130.

California Economics Standards Workshop; March 24; San Bernardino, California. A one-day workshop from the California Council on Economic Education (CCEE) and the Foundation for Teaching Economics (FTE) for secondary teachers of economics. (800) 845-9799. No cost.

National Business Education Association (NBEA) Annual Conference; March 27-30; Philadelphia, Pennsylvania. "Educating for Success in Business and Life." Featuring innovative ideas, state-of-the-art technology, and dynamic workshop speakers. (703) 860-8300. www.nbea.org. Registration fee.

The Federal Reserve and Monetary Policy; April 9-10; Phoenix, Arizona. Learn about the Federal Reserve System and a variety of free economic education materials at a one-day workshop. Contact the Arizona Council on Economic Education at (480) 368-8020 or email: azecon@aol.com. No cost.

Economics for Teachers; June 5-11; Tucson, Arizona. Three-credit graduate course to explain foundations of economics and ideas for teaching in-depth concepts in class. Contact the Arizona Council on Economic Education at (480) 368-8020 or email: azecon@aol.com. Assistance with tuition is available.

Northern Utah Social Studies Conference; July 3-August 1; Park City, Utah. Offers sessions for all social studies teachers. Contact the Utah Council on Economic Education at (801) 538-7868 for more information.

The Environment & the Economy; September 14-17; Tucson, Arizona. Attend this 3 1/2 day program sponsored by the Foundation for Teaching Economics (FTE) and focus on how to integrate environmental issues into your classroom discussion. Contact the Arizona Council on Economic Education at (480) 368-8020 or email: azecon@aol.com. Call for fees.

"Financial Fitness for Life" Workshops. Offered nationwide in conjunction with the National Council on Economic Education (NCEE). Curriculum for grades K-12 that addresses personal finance, economics, mathematics, and language arts standards. Contact your state council on economic education for more information and cost information. State councils listed on www.ncee.net.

To add something to our Fall 2002 Calendar of Events, please submit your program information to the editor by August 30, 2002. Space is limited.

As an educator, you possess a remarkable opportunity to make a positive difference in your students' financial future (*and* their credit ratings!). With nearly one third of college freshmen carrying a credit card in their name *while in high school*, there is plenty of opportunity to make a practical and lasting impact. In fact, at last fall's National Council on Economic Education meeting, Federal Reserve Chairman Alan Greenspan stated that "improving basic financial education at the elementary and secondary school level can provide a foundation for financial literacy, helping younger people avoid poor financial decisions that can take years to overcome." Students may not realize it, but a tarnished credit record can follow them into adulthood and could potentially affect their access to checking accounts or low-interest loans from banks. Below are several ideas that can help students become financially fit.

Sources:

- "Credit card crash course teaches financial responsibility." *Silicon Valley / San Jose Business Journal*. January 18, 2002.
- "Easy credit gives kids lesson in debt." *Chicago Sun-Times*. December 16, 2001.
- "Generation next." *Independent Banker*. November 1, 2001.
- Greenspan, Alan. Remarks to the annual meeting of the National Council on Economic Education. October 26, 2001.
- Jaffe, Melissa. On-campus interviews with students at the University of San Francisco. January 25, 2002.
- "The wrong kind of extra credit." *San Francisco Chronicle*. December 23, 2001.

Get Them Talking

Getting high school students to open up and discuss themselves—not to mention their financial knowledge—can take a bit of ingenuity. We asked some Bay Area students what they felt would be effective ways to learn about financial responsibility. Here's what they said:

Encourage students to:

- **Assess whether or not a credit card for individuals under 18 is a wise option.** If you break down the realities of interest rates, APR, and what it means to pay only the minimum payment on a credit card, students are more likely to take

notice the next time they receive an offer and they may even help a sibling or a friend.

- **Think outside the box.** Have students brainstorm creative ways of satisfying their material cravings without spending a lot of cash.
- **Save for emergencies.** (rather than feeling that they must rely on a credit card for this purpose).
- **Address "money myths."** Explain that opening a line of credit with the intention of building one's credit rating may not be worth it if it leads to suffocating debt.

- **Keep an open mind.** From what students have told us, they are listening and your voice may be the first one to talk to them about how financial responsibility can lead to financial freedom.
- **Analyze how to handle real life situations.** With many students receiving college acceptance letters this spring, this is a good time to apply financial concepts to the world beyond high school. Group discussions on how students will pay for dates, clothes, and CDs, for example, could help trigger the concepts of budgeting.

Get the Facts

Sometimes the best things in life *are* free . . . For easy ways to integrate lessons on financial responsibility in your classroom, try these:

- www.frbsf.org/consumer/index.html. The Federal Reserve Bank of San Francisco offers free consumer-related brochures on credit issues, including credit rights, credit reports, fraud, and establishing your credit rating.

- www.dallasfed.org. Click on "Building Wealth: A Beginner's Guide to Securing Your Financial Future" from the Federal Reserve Bank of Dallas. You can order a free booklet with helpful ideas to share with your students.
- www.federalreserve.gov. The Board of Governors of the Federal Reserve System is the home of Chairman Greenspan himself! Click on "Consumer Information" to order a wide variety of free materials.

- www.jumpstartcoalition.org. Visit this site for practical ideas and "12 Principles that Every Young Person Should Know" from the Jump\$tart Coalition, a nonprofit organization dedicated to "financial smarts for students."
- www.nefe.org/pages/educational.html. The National Endowment for Financial Education offers hands-on ideas for integrating financial literacy into the high school classroom.

Q&A on the Economy: Prospects for 2002



with Jack Beebe, Senior Vice President and Director of Research

As you may imagine, many people have been asking about the changing economy. To give you some perspective, *Econ Ed and the Fed* spoke with Jack Beebe on January 24, 2002, to hear his views.

Q: *Is the current recession “normal”?*

A: Compared to the average post-World War II recession, the current recession is likely to end up about as long as and a little less deep. But this recession is unusual in that it is a business investment recession. Consumer spending has not dropped off much at all, which is atypical of what has happened in other post-World War II recessions. These “normal” recessions usually were preceded by rapid growth, a sharp rise in price inflation, and a rise in interest rates brought about by the market and by the Federal Reserve. These recessionary periods were then followed by a sharp falling-off in consumer spending and in business investment. Prior to the current recession, we didn't see a rise in inflation and the rise in interest rates was modest. However, we did see a period of excessive investment.

Q: *Have there been other recessions like this one?*

A: The one twentieth-century recession that serves as a comparison for the current economic period occurred in the late 1920s. It occurred at the end of a very long period of productivity enhancement following the invention of the electric motor, which facilitated the mass production of a wide range of products, including automobiles. Automobiles led to a land boom throughout the U.S., and both land prices and stock prices rose dramatically in the late 1920s until the famous stock market crash of 1929.

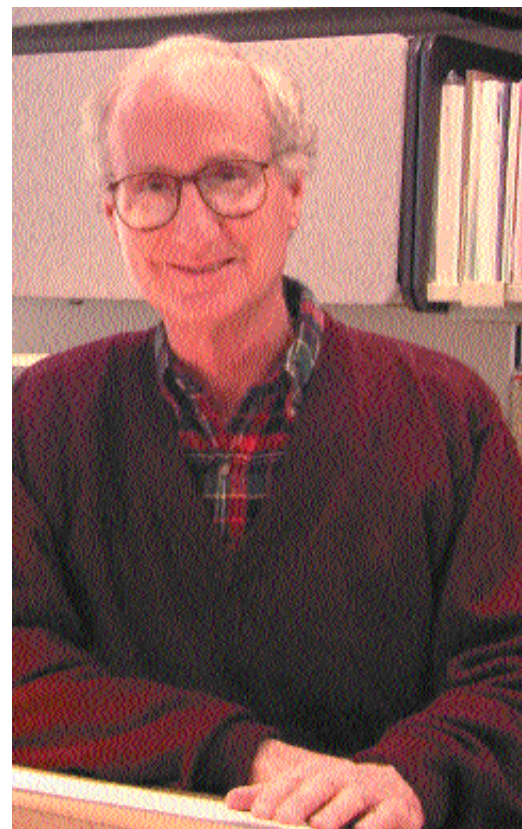
The 1990s boom arose from technology that began in 1955 with the invention of the transistor, leading to the extraordinary technological advances of the 1990s. However, just because the 1990s experienced a technology boom comparable in many ways to the 1920s, there is no reason that this boom should end with a sustained economic downturn.

Q: *What are the chances that the current recession will lead to a depression?*

A: Zero! The boom of the 1920s was much stronger than that of the 1990s. And the asset price bubble included land prices. But more importantly, serious policy mistakes were made in the 1929-33 period. We have a keen understanding of what went wrong in that period. Today, we don't have an international gold standard and fixed exchange rates. We have a much more responsive Federal Reserve.

Moreover, our deposit insurance, unemployment insurance, and government spending programs act as automatic stabilizers to the economy.

The 1929 stock market crash should not, in and of itself, have created the Depression of the 1930s. What happened during that time was that the government raised taxes in an attempt to balance its budget for fear that people would otherwise lose confidence in it. And the Fed tried to maintain confidence in the currency. So, while prices collapsed and interest rates fell to zero, the Fed didn't expand the monetary base sufficiently. The Fed is keenly aware of the 1929-33 period and also of the decade-long recession that the Japanese are still going through. The Fed already has acted to avoid such situations as these.



Q: *Why hasn't consumer spending dropped off very much recently, even in light of significant layoffs?*

A: One reason is that increasingly expansionary monetary policy has really lowered short-term borrowing costs. This policy has also helped to bolster asset prices, keeping stock prices from falling even further than they have already. Also, housing prices and homebuilding are still holding up largely because of expansionary monetary policy.

While lower interest rates have helped to keep the consumer going, the tax cuts in the second half

of last year have just fully kicked in during recent months. Mortgage refinancing also has given people more disposable income after paying financing costs, and lower energy prices have helped too.

However, the risk during the next three to six months may be that consumers could react to additional layoffs, so that their spending may retrench, which could slow the recovery. And stock prices are still lofty relative to corporate earnings; they could fall further.

Q: *What's your outlook?*

A: We've been raising our forecast recently. It now shows the economy picking up a bit in the first quarter, and then accelerating to a 3-4 percent growth rate late in the year. This would be a slow recovery by historical measures.

But there is good news. I think we're going to come out

of this recession with a much more rational technology boom in that another tech-stock price bubble is unlikely and firms will be careful not to overinvest in high-tech equipment. But the technology side of the economy has a lot to offer and part of it already has started to come back. Beyond the next year or two, there will be new waves of goods that will generate productivity enhancements and growth. In my view, the "new economy" is still with us. Although I'm still concerned that the stock market remains overpriced, hopefully investors won't pay too

much for technology stocks and firms won't overinvest in technology equipment.

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A Teaching Tool:

The Fed's Response to September 11

For a unique classroom discussion on the Federal Reserve and its recent response to the tragedies of September 11th, you can use the December 7, 2001, *Economic Letter* as a springboard for discussion. In "The U.S. Economy after September 11," by Robert T. Parry, President and Chief Executive Officer of the Federal Reserve Bank of San Francisco, you can assess and discuss:

- The U.S. economy before September 11
- The Federal Reserve's response to the attacks
- The economic outlook over the short run
- A longer-term perspective
- Looking toward economic recovery

Full text is available online at: www.frbsf.org/publications/economics/letter.

Web-based Economics Resources for Classrooms

By Sharon Strahm

If you want to try some different teaching strategies in your classroom, there are tons of websites at your fingertips! You can use the Internet to find up-to-date statistical information and then create Internet-based research projects for students. Or, you can ask your students to complete online quizzes and projects. Students can even learn how to identify information from useful, credible sites instead of using data from unreliable or disorganized sites.

For Info on Personal Finance Topics, check out:

- The National Endowment for Financial Education (www.nefe.org) offers a High School Financial Planning Program that uses contemporary materials to influence students' habits and attitudes so that they can take control of their finances. Provides ideas to infuse personal finance education into your classroom, including practical ideas for money management. No charge for materials. Also available in Braille and in Spanish.
- The JumpStart Coalition (www.jumpstartcoalition.org) focuses on the "how-to's" of managing a personal budget, establishing credit, and other everyday financial concerns. Offers an online, interactive "Reality Check" for students to figure out what type of job and level of education they may need for the kind of lifestyle they want to lead as adults. Also provides an online searchable database of resources and materials.
- The Consumer Action Center (www.pueblo.gsa.gov/crh/respref.htm) offers advice and tips on how to avoid or resolve consumer-related problems, including choosing credit cards wisely and avoiding credit scams. Includes an online lesson to help students resolve consumer-related problems by searching for answers on the Federal Consumer Information Center's (FCIC) Consumer Action Website or in the Consumer Action Handbook.

For Info on Economic Data, try:

- The World Bank (www.worldbank.org/html/schools) brings the world into your classroom with data on topics like international trade, population growth, communication technologies, and environmental needs for a wide variety of social studies projects. Also offers a program that can link students and teachers of developing countries with students and teachers in industrialized countries via the Internet.
- The Bureau of Labor and Statistics (www.bls.gov) provides quick access to economic statistics—from inflation and consumer spending to the employment cost index and productivity. Students can also learn about careers and salary projections related to their interests in music, science, the outdoors, reading, and math.

For Economics Lesson Plans Online, check out:

- The National Council on Economic Education (www.ncee.net) serves as a resource for teacher training on economics topics and publishes classroom-tested materials. Includes an archive of free, online economics lessons such as: "If You Build It, Will They Come?" "How E-Commerce Influences Consumer Choice," and "If You're So Smart, Why Aren't You Rich?" Also includes a publications catalog and links to many state economic education councils.
- "Peanuts and Crackerjacks" from the Boston Federal Reserve Bank (www.bos.frb.org/peanuts/leadpgs/intro.htm) covers all the bases on the economics of pro sports in an online game—from supply and demand to salary caps and sports trivia. Even if they're not sports fans, students can gain a better understanding of economics in everyday life. Includes an online teacher's guide with more than 50 ideas for classroom use.
- The Foundation for Teaching Economics (www.fte.org) features web-based lesson plans and simulations for teaching economics in classrooms. Offers FREE online courses that qualify for graduate level credit; for example: "Economics for Leaders," and includes several "prize winning lessons" from teachers.
- The Federal Reserve System (www.FederalReserveEducation.org) offers one-stop-shopping for all economic education curricula, publications, and programs available from the Federal Reserve System. Includes a link to FED101, a new interactive website to teach about the Fed, and provides simulations and online quizzes for students to complete. FED101 also can be used with a set of lesson plans and a video called "The Fed Today." Materials may be downloaded or ordered online.

Website lists compiled from a variety of online and printed sources, including The Ledger, an economic education newsletter from the Federal Reserve Bank of Boston.

New from the Fed:

Presenting . . . The Fed Today Lesson Plans

By Lupe Jaramillo

If you're finding it challenging to present your students with a scholarly—not to mention engaging—explanation of the purposes and functions of the Fed, you're not alone. Although the Federal Reserve is widely known among academicians as the nation's central bank, teaching about the Federal Reserve can be like taking skydiving lessons when you're afraid of heights. You may not be exactly sure how the Fed implements monetary policy, how reserve requirements affect the nation's money supply, or how to make somewhat formidable terms come alive for your students.

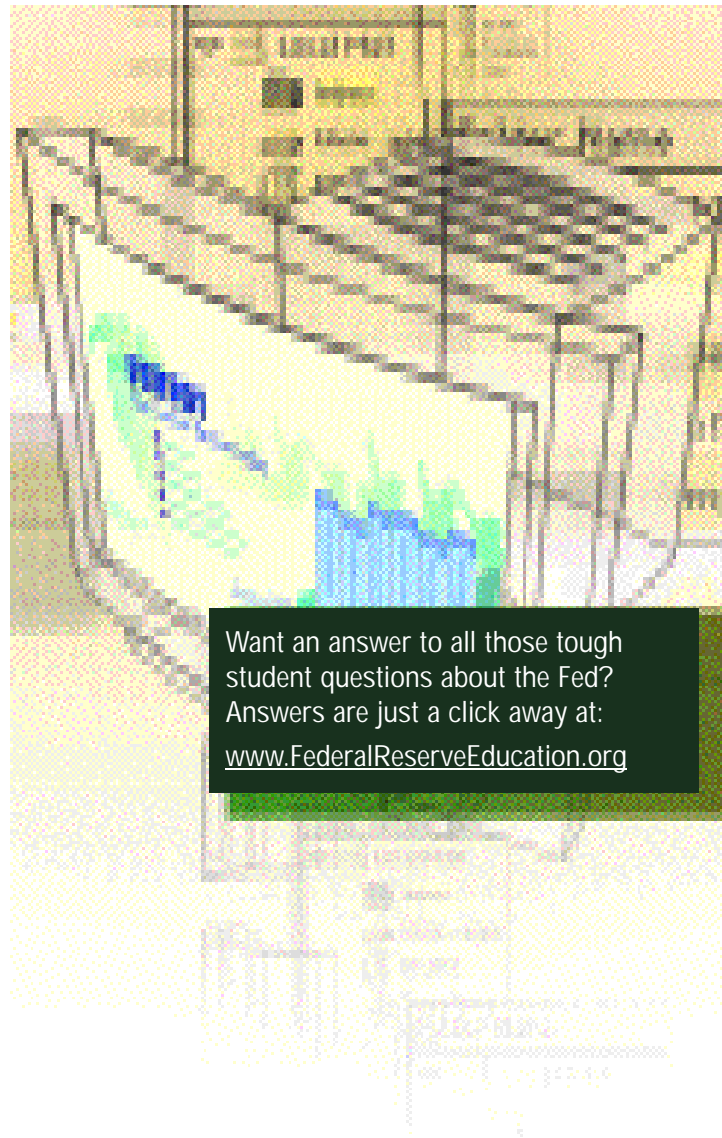
Here at the Fed, we are happy to present our latest educational product that we feel directly addresses this need. Many of you may already be familiar with our popular video, *The Fed Today*. Now, we bring you companion lesson plans. Federal Reserve Banks from throughout the nation lent their expertise to this innovative product, and the result is a collection of six creative, practical lesson plans that you can use with your students.

We hope you've already tried our new website at www.FederalReserveEducation.org. You can order FREE copies of *The Fed Today* video, download the companion lesson plans, or even weave the online applications of the website into group or individual projects. Access to the latest computer technology helps but is not required.

Our new lesson plans cover everything from the history of money to the *Fisher Equation* to the role of the Fed in protecting the nation's money supply. There is also more than enough room for creativity in demonstrating the lessons. For example, when teaching about "How the Fed Protects Your Money," you might encourage students to role play characters such as bank

presidents, small business owners seeking a loan to expand their businesses, and even Fed bank examiners.

We hope you will find the new lesson plans an innovative addition to your curriculum this year and will let us know what you think! You can reach the editor, Sharon Strahm, directly at sharon.strahm@sf.frb.org.



Want an answer to all those tough student questions about the Fed? Answers are just a click away at: www.FederalReserveEducation.org

Are your students ready for an *Economics Challenge?*

If you teach economics and need a new way to challenge your students, you may be interested in the college-bowl competition called the Economics Challenge. State competitions will be held in most areas in early April and the Federal Reserve Bank of San Francisco will host the Western Regional Finals on April 29. Winning teams can look forward to earning prize money!

For more information or to see if your state is participating, contact your local state council on economic education. Contact information is available from the National Council on Economic Education at: www.ncee.net.



Be sure to join our newsletter mailing list @ www.frbsf.org/education/newsletter

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