



Can You Keep the Economy on Track?

Classroom Activity

Level:	Intermediate
Prerequisite:	Macroeconomic concepts; basics about the Federal Reserve and monetary policy
Type:	Group
Time:	35-40 minutes
Objectives:	

- Assess economic conditions within the *Chair the Fed* game environment
- Demonstrate the appropriate use of the fed funds rate in reaching inflation and unemployment goals
- Evaluate monetary policy decisions based on the levels of inflation and unemployment

Materials/Media:

- Copies of “*Can You Keep the Economy on Track?*” Datasheet, one per group
- 1 blank sheet of paper, one per group
- Project the *Chair the Fed* game (internet access, computer projector, computer, computer speakers-*optional*)

Description:

This activity introduces *Chair the Fed: A monetary policy game* as a way to learn about how changes in the fed funds rate affect inflation and unemployment. During the activity, your class will play one term of *Chair the Fed*, voting for changes in the fed funds rate during the course of the game. When the game has finished, students will complete a small group discussion followed by a whole class debrief. Several homework suggestions are included at the end of the activity.

ACTIVITY PLAN

I. Set-Up (10 minutes)

1. Introduce the activity by asking students to write down three things they remember about monetary policy. Elicit student responses and record on the board. Focus on the Fed’s dual mandate for price stability and maximum employment.
2. Display the [Chair the Fed](#) game. Point out that the game puts the player in the role of setting monetary policy as Chair of the Fed. Highlight the chart area showing the goals for inflation (2%) and unemployment (5%). Roll over the question mark pop-ups on the screen to highlight the goals for each. Tie these two goals back into the Fed’s dual mandate.
3. Point out that the monetary policy tool in the game is the fed funds rate. Roll over the question mark pop-up on the screen and read the text. On the board, write down these two bullet points:
 - Raising the fed funds rate tends to increase unemployment and decrease inflation
 - Cutting the fed funds rate tends to decrease unemployment and increase inflation
4. Announce that the class will play the game with the objective of keeping inflation near 2% and unemployment near 5%, using the fed funds rate. Divide students into small groups. Distribute a copy of the Datasheet handout to each group. Ask each group to take out a blank sheet of paper and tear it ‘burrito-style’ into three even sections. Label each section separately with one of three words: “RAISE”, “CUT”, and “UNCHANGED.”



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5. Ask for a student volunteer to record the results of the voting. Draw a large table with five columns labeled: Quarters Remaining; Raise; Cut; Unchanged; Decision. Leave room for 16 rows, one for each quarter in the game.
6. Tell students that the game proceeds one quarter at a time for 16 “turns.” Before each turn, the class will vote on what action to take with monetary policy by changing the fed funds rate. Ask each group to appoint someone to record the session data. Record the opening screen data on the board (FFR = 4.00%, unemployment = 4.68%, inflation = 2.11%).

II. Game Play (15 minutes)

1. Start the game by asking each group to evaluate unemployment and inflation levels based on the goals for both and to make a group decision about changing the fed funds rate. (Example evaluation: Inflation is slightly above 2%, unemployment is below 5%. Raising the FFR will decrease inflation and increase unemployment, getting the economy closer to target.)
2. Ask each group to make a decision on the fed funds rate and record their decision by noting the information on their worksheet. Call for a class vote by asking each group to display one of three phrases, “Raise”, “Cut” or “Unchanged.” The student volunteer will record the votes in each column. Using a simple majority, record the most popular decision in the final column. You break all ties. Ask each group to record the majority decision.
3. Announce that you will implement a simple rule for how much to adjust the rate, just to keep things moving. If unemployment and inflation are close to target, you will only raise or cut by 1%; if on the other hand, things are starting to get out of control you will adjust by 2-3%, and if things are really going south, you will adjust by 4-5%.
4. Based on the majority decision, adjust the FFR by 1% (unemployment and inflation are close to target so a small adjustment is warranted). Ask student teams to record the rate on their worksheets and press the “Go” button.
5. Once the first quarter is complete (countdown displays 15 quarters remaining), ask students to record all three rates. Point out the information in the headline and changes in the levels of inflation and unemployment.
6. Continue game play:
 - a. Ask each group to evaluate the inflation and unemployment rates and make a decision about the fed funds rate. Call for the vote, record the results, play the majority decision.
 - b. Work fairly quickly through the quarters, spending no more than 60 seconds per decision.
 - c. The activity ends once the announcement screen is displayed (Congratulations or Sorry). Walk students through the text on the screen and be sure to point out the name of the **shock** that hit the economy during the game and how far the inflation and unemployment rates were from the stated goals (2% and 5%, respectively).



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III. Small Group Discussion (5 minutes)

In their small groups, students will discuss the following:

1. Did the group get reappointed? Why or why not?
2. What was the name of the shock that occurred during the game?
3. How many times did your team vote differ from the majority decision? In which quarters?
4. If you look at the data, was there a quarter where the group decision on monetary policy (changing the fed funds rate) was clearly incorrect (the decision to raise the rate when a cut would have been better or the opposite)? Justify your answer.
5. What was most confusing about playing the game?
6. What other information would have helped in playing the game?

IV. Whole Class Debrief (5-10 minutes)

- Were you surprised by the outcome of the game? Why?
- How many times did your team disagree with the majority decision? Why?
- What was interesting in the Datasheet information? Were there any clues for why we did or did not get reappointed?
- How was the information different in “Breaking News” and “News Brief”?
- What other data or information would have been helpful?
- What would you do differently next time you play the game?

HOMEWORK OPTIONS

1. Play [Chair the Fed: A monetary policy game](#). Print out the end of game results and jot down responses to the questions below. Be prepared to discuss in class.
 - a. How confident are you in your ability to keep the economy on track during the game? Rate yourself on a scale from 1 – 10, with 1 = not at all, to 10 = every time.
 - b. What makes the game difficult? Easy?
 - c. What else would you like to know about monetary policy?
2. Watch Question 3 of the [video Q&A](#) on the parts of the game that are realistic. Write a summary of the answer.
3. Watch Question 4 of the [video Q&A](#) on the parts of the game that are unrealistic. Write a summary of the answer.
4. Read the [Monetary Policy section of What is the Fed?](#) and take the online quiz.

ADDITIONAL RESOURCES

1. [What is the Fed?](#) Online Resource. Federal Reserve Bank of San Francisco.
2. [Chair the Fed Video Q&A](#). Questions 3 & 4. Federal Reserve Bank of San Francisco.
3. [Money, Interest Rates, and Monetary Policy](#). Current FAQs. Federal Reserve Board of Governors.
4. [FOMC Longer-Run Goals and Monetary Policy Strategy](#). January 2015. Federal Reserve Board of Governors.