



# Chair the Fed – An Introduction to the Game

## Classroom Activity

<b>Level:</b>	Introductory
<b>Prerequisite:</b>	Basic macroeconomic concepts
<b>Type:</b>	Group
<b>Time:</b>	15-20 minutes
<b>Objectives:</b>	Students will be able to: <ul style="list-style-type: none"><li>• identify the fed funds rate as the primary tool of monetary policy</li><li>• describe two goals of monetary policy</li><li>• evaluate monetary policy decisions based on the levels of inflation and unemployment</li></ul>
<b>Materials/Media:</b>	Project the <i>Chair the Fed</i> game (internet access, computer projector, computer, computer speakers- <i>optional</i> )

### Description:

This activity serves as a quick introduction to the Federal Reserve and monetary policy using a demo of *Chair the Fed: A monetary policy game*. During the demo, you will not make any changes to the fed funds rate, so your students can see what happens when monetary policy is unresponsive to changes in the economy. Once the activity is completed, you can move into direct instruction about the Federal Reserve and monetary policy, assign reading and homework, or have students play the game on their own (see Intermediate-level activity). We've also included a few homework suggestions to reinforce the concepts of the fed funds rate and monetary policy that you may find helpful.

## ACTIVITY PLAN

### I. Set Up and Game Demo (5 - 10 minutes)

1. Announce to the class that they will have a chance to run a simulation of the U.S. economy called "*Chair the Fed*" that focuses on inflation and unemployment. Provide a quick review of inflation and unemployment, calling out the current levels of both indicators. (You can find current data in easy-to-use DataPost slide decks on [inflation](#) and [unemployment](#).)
2. Display the [Chair the Fed](#) game and ask students to take notes as you point out some of the key features of the game. Briefly 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%). Define the fed funds rate as the primary tool for monetary policy and point out what to look for on the game screen (green line in the chart area initially set at 4% rate).
3. Ask students to record the starting levels for inflation, unemployment, and the fed funds rate (2.11%, 4.68%, and 4.00%, respectively) in their notes by making a small table with four columns labeled: *Quarters Remaining*, *Inflation*, *Unemployment*, and *Fed Funds Rate*.
4. Start the game by clicking on the "Go" button. Once the first quarter is completed (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. Note the fed funds rate was unchanged.
5. Work quickly through the remaining 15 quarters, pausing just long enough to review each headline and for students to record the new values of inflation and unemployment. Be sure to roll your cursor over the "raise" and "cut" buttons periodically to emphasize that you are intentionally **not** making adjustments to the fed funds rate. Take no more than five minutes to work through this demo of the game.



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- The game ends on an announcement screen indicating “Congratulations” if the Chair has kept the economy on track (close to the goals for inflation and unemployment), or “Sorry” if the goals have not been met.

### II. Debrief (5 minutes)

- Keep the announcement screen up during the debrief. 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).
- Discuss the following:
  - How did the game end? Why? What was the problem? (Note: There are nine different economic shocks programmed into the game, one per game. Only the “*dollar rose sharply*” and “*financial market crisis*” shocks will result in reappointment without adjustments to the fed funds rate; all other shocks will take the economy off track unless the Chair takes action.)
  - What was the most extreme value for inflation? For unemployment?
  - What could have been done differently during the game?
  - What does it take to be reappointed to chair the Fed?
- Remind students that you intentionally left the fed funds rate unchanged to demonstrate what can happen to inflation and unemployment when monetary policy is unresponsive to changes in the economy.
- Ask students to take note that the **fed funds rate** is the primary monetary policy tool that the Federal Reserve uses to meet its goals for inflation and unemployment.
- Announce that they will have an opportunity to try their hand at monetary policy by playing *Chair the Fed* themselves after they have had a chance to learn more about the Fed and monetary policy.

### III. Formative assessment (5 minutes)

- Give a short, follow-up quiz with the following questions:
  - What is the name of the primary tool of monetary policy?
  - What are the goals for inflation and unemployment?
  - How would you define monetary policy?

### HOMEWORK OPTIONS

- Read the [Monetary Policy section of What is the Fed?](#) and take the online quiz.
- Interact with the historical fed funds rate chart on the [Chair the Fed web page](#). Record the highest and lowest levels of the target fed funds rate and the current level of the target fed funds rate.
- Watch Question 5 of the [video Q&A](#) on how changes in the fed funds rate impact inflation and unemployment. Write a summary of the answer.



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4. 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 difficult was it to keep the economy on track (2% inflation, 5% unemployment)? Why?
  - b. What shock occurred during your game?
  - c. What advice would you give to someone playing this game for the first time?
  - d. How has playing the game changed your thinking?

### ADDITIONAL RESOURCES

1. [What is the Fed?](#) Online Resource. Federal Reserve Bank of San Francisco.
2. [Chair the Fed Video Q&A](#). Question 5. 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.