Student M

**Date** 9/30/13

Directions: Using the evidence from the reading, your no[tes], class discussion, and visual aids answer the following questio[n]

High Range (2+)

-valid effects (multiple)
-multiple uses of text and class discussions
-accurate and relevant economic evidence used to support response

**Check for Understanding**

- How do actions by the Federal Reserve affect consumer[s] ... answer with economic evidence.

*Rubric*

2-This response gives a valid effect with accurate and releva[nt] ...

1-This response gives a valid effect with inaccurate, irrelevant, or no economic evidence.

The Federal Reserve's job is to keep prices stable and to balance the money supply (Paragraph 1 sentence 1 of "The Role of the Fed" and the bottom of "Federal Reserve Bank Notes continue.") When the FED decreases or increases the money supply, it affects business activity, employment, and prices. (The front of "Federal Reserve Bank Notes continue.") When the FED increases the money supply, the amount of money borrowed increases, which leads to more spending from the consumer and more sales from the producers (Class discussion and Front of Federal Reserve Bank Notes continue.) This is due to banks having more excess money to lend (text dependent question paragraph 5 last sentence." When the FED lowers the money supply, spending decreases due to less loans being given out by banks. When spending decreases production and profit decreases for producers (class discussion)

accurate + relevate evidence

strong economic evidence

valid effects

Banks also "create" money when they lend it by taking some of the money that was deposited and making a loan to a business. The business then uses the loan to make a purchase, and then the seller deposits the money that it has to another bank and the process keeps on going (Visual aid, page 8, 9). That process provides a continuing source of funds, which allows producers to keep on selling and consumers to keep on buying.

great connections to all sources of information used in lesson
- visual
- video
- article
- TDQ

9/23/13
8-3

Keeping prices **stable** is part of the job of the Federal Reserve, which was created by Congress in 1913. There had been two attempts at **establishing** a central bank in the United States in the 19th century, **but politics killed them** even though they were successful. Back then, state-chartered banks issued their own paper money backed only by their individual gold and silver reserves. As a result, there were once more than 10,000 different kinds of bank notes in circulation.

**state-chartered**
organized and maintained by individual states

**bank notes**
paper currency

Face value - what you have to back the [illegible]

Suppose you owned a store in those days. How would you know which banks had enough gold reserves to make their currency worth its **face value?** Should you decrease the value of bills from a weaker bank? And how would you keep track of all those bank notes? You can imagine the shopkeeper's **dilemma.** If a bank went broke, its currency was instantly worthless, and those who held its notes could lose everything.

Naturally, people hurried to withdraw their money at the first hint of trouble in the economy. The **result** was **periodic** financial panics that could **devastate** the national economy for years. Finally, after a **particularly** bad panic in 1907, Congress decided to solve the problem. In 1913, it **established** the Federal Reserve System to provide for a safer and more **flexible** banking and monetary system.

**financial panics**
urgent concern for safety of personal money

With the Fed as safeguard, banks can perform their proper role of bringing savers and borrowers together for the benefit of both. For any economy to be successful, a country **first needs political stability** so its citizens feel safe; then it needs a **stable financial system** that includes both **trustworthy money** and **reliable financial institutions**. Healthy, profitable banks, therefore, are a vital part of the nation's **economic welfare**.

**safeguard**
form of protection

**vital**
necessary

Banks provide many services, but for most people, banking **consists** of depositing their income into a checking account and writing checks or using a debit card on that account to buy things that cost more money than they want to carry in their wallets. People also have savings accounts in which they deposit money they don't need right away or they are saving for a **particular** purpose. The bank pays interest, or a price paid for use of the money, on savings accounts and often on checking accounts, too.

Very little of this money is kept in the bank's vault, however. While the Federal Reserve requires banks to keep a **specified** percentage of customer deposits on hand (reserves) to meet routine withdrawals, they lend the excess. Banks, like any other business, must make a profit **to stay in business**. Their profit comes from interest people pay on the money they borrow.

**vault**
safe holding place within the bank

**reserves**
funds which cannot be loaned

**excess**
unused funds

# The Role of the FED

Central Bank - The key (main) bank

face value - What you have (reserve) to back the money up.

- Political stability is when political leaders are safe and "agreeing"!

Recession
FED - ↑ $ supply
Reserve 10%

Normal
Fed - money supply not changed
Reserve 20%

Inflation
Fed - ↓ $ supply
30%

In the recession banks lend more and keep less

In inflation banks lend less and keep more.

FED - Balance the money supply and keeping prices stable.

Importance

9/17/13

# Federal Reserve Bank Notes continue

## Recession

Business activity ↓ declines + Unemployment ↑ rises = FNS

Money supply ↑ → Borrow ↑ Increases +

Economic Growth ↑ Increases = Unemployment ↓ declines

Federal Reserve's job in a recession is to increase the money supply so that spending and borrowing goes up, while unemployment goes down.

FRB job in inflation is to decrease the money supply so that spending and borrowing goes down so inflation decreases

Inflation = Prices go up

Economy grows too rapidly ↑ Increase + Prices increase ↑ + →

Inflation increase ↑ → Lower money supply ↓

Interest rates ↑ + Business Activity ↓ = Inflation Decreases ↓

Inflation - Prices Go Up
Deflation - Prices Go Down
Disinflation - Slowing down of inflation

Max Medroso

Text Dependent Questions
Student Handout
The Role of the Fed

| Text | |
|---|---|
| Keeping prices stable is part of the job of the Federal Reserve, which was created by Congress in 1913. There had been two attempts at establishing a central bank in the United States in the 19th century, but politics killed them even though they were successful. | "Keeping prices stable is part of the job of the Federal Reserve." -Paragraph 1 sentence 1<br>Their job is to keep prices stable<br>Paragraph 1 sentence<br>The government couldn't agree to keeping a central bank.<br>In the opening paragraph, the Author uses the phrase "but politics killed them..." What do you think the Author means by this? |
| Back then, state-chartered banks issued their own paper money backed only by their individual gold and silver reserves. As a result, there were once more than 10,000 different kinds of bank notes in circulation.<br><br>Suppose you owned a store in those days. How would you know which banks had enough gold reserves to make their currency worth its face value? Should you decrease the value of bills from a weaker bank? And how would you keep track of all those bank notes? You can imagine the shopkeeper's dilemma. If a bank went broke, its currency was instantly worthless, and those who held its notes could lose everything. | The problem was that it was hard to keep track of all the different bank notes and that if a bank went broke, its currency was worthless and that person could lose everything<br>Also, it will be hard to know the value of the money<br>Paragraph 1 sentence 4<br>Paragraph 2, Sentence 2 — 6<br>In paragraph 2, the Author speaks of a "dilemma" faced by the shopkeepers.<br>What [...] ers may have [...] What [...] supports your [...]<br>"How would you keep track of all those bank notes."<br>"Should you decrease the value of bills from a weaker bank?" Paragraph 2, sentence 3, 4 |
| Banks provide many services.... People also have savings accounts in which they deposit money they don't need right away or they are saving for a particular purpose. The bank pays interest, or a price paid for use of the money, on savings accounts and often on checking accounts, too.<br><br>Very little of this money is kept in the bank's vault, however. While the Federal Reserve requires banks to keep a specified percentage of customer deposits on hand (reserves) to meet routine withdrawals, they lend the excess. | 1) "The bank pays interest, or a price paid for use of the money." People get money from interest Banks get to use money deposited.<br>2) The FED uses reserves to meet routine withdrawals. "The FED requires banks to keep a specified percentage of customer deposits on hand to meet routine withdrawals.<br>• What evidence from the text supports your answer?<br><br>Why does the Federal Reserve require banks to keep "a specified percentage of customer deposits on hand (reserves)"? Support your answer with evidence from the text. |