

What is the Federal Reserve?

Have you ever heard of the Federal Reserve? Ever wonder what the role or purpose of the federal reserve is?

Look at the brief overview below on the Federal Reserve and then watch the 5 YouTube videos below for more information on the Federal Reserve and then try your hand as the Chairman of the Federal Reserve in the attached game below that asks you to Chair the Fed.

The Federal Reserve System is the Central Bank of the US and it has two primary objectives:

1. Price Stability - A low and stable rate of inflation maintained over an extended period of time.
2. Maximum Employment - The Fed uses its monetary policy tools to help the economy reach its potential.

How Does the Fed Do This?

The Fed acts through interest rates to influence both objectives.

Interest rates influence both consumers and businesses by encouraging people to save money or invest money.

When the economy is in recession (a slow economy), the unemployment rate will often increase to a level that is not consistent with the Fed's "maximum employment" mandate.

As unemployment rises, the Fed can lower interest rates to:

Decrease the cost of borrowing

Increase business production, which should lead to increased hiring

Increase employment leads to more consumer spending

As spending by business and consumers increase, unemployment should decrease

As inflation rises above the 2% mark, the Fed can raise interest rates:

Higher rates influence business and consumers to spend less.

Inflation decreases as consumers and businesses spend less

Videos:

[Introduction to Monetary Policy](#)

[Changes to the Money Supply](#)

[Price Stability](#)

[The Goals of Monetary Policy](#)

[The Role of the FOMC](#)

Game: Chair the Fed

Now that you have learned a little about the Federal Reserve, it's time for you to try your hand as the Chairman of the Federal Reserve. The game below simulates the role of the Federal Reserve and asks you to meet the two policies of inflation and employment.

The President of the United States has nominated you and the U.S. Senate has confirmed you to serve as the Chair of the Federal Reserve. Your job is to set monetary policy to achieve full employment and low price inflation. Your term will last 4 years (16 quarters). In the below game, Chair the Fed, you will determine the Federal Funds Rate to meet the two objectives of the

Federal Reserve Policy Goals:

- (1) Keep inflation within 2%;
- (2) Keep unemployment within 5% (Full Employment).

While you discuss the interest rate and monetary policy, pay attention to the breaking news for information on the state of the economy. As an economist you are responding to economic stimuli after the fact and must adjust your policy to take account of that stimuli.

Raising the Fed Funds Rate tightens monetary policy by restraining the supply of money in the economy. The effect should reduce inflation over the long-run, but increase unemployment.

Lowering the Fed Funds Rate loosens monetary policy by increasing the supply of money in the economy. The effect should be to reduce unemployment, but increase inflation over the long-run

Good Luck!

[Chair the Fed](#)