NAME:________________________________

Classroom Law Project

Unpacking the Federal Reserve and Interest Rate Hikes

Vocabulary

Directions: Frontload (introduce and review) these vocabulary words with your students to facilitate their understanding of the topic and coinciding resources:

1. **Federal Reserve** (n.) - Also known as the Fed, the Federal Reserve is the central bank of the United States. The Fed regulates financial systems and monetary policy and is made up of a central body in Washington, D.C., a Board of Governors, and a dozen regional banks around the United States.

2. **monetary policy** (n.) - The variety of tools the Fed has at its disposal to influence the stable growth of the economy.

3. **interest rates** (n.) - The primary tool available to the Federal Reserve to regulate the steady growth of the economy; by setting the rate that it charges to banks for short-term loans, the Fed can limit (by increasing interest rates) or expanding (by lowering interest rates) the availability of money in the economy, which in turn will ideally prevent the economy from growing or contracting too rapidly.

4. **wage-price spiral** (n.) - The relationship between wage growth and inflation. As wages rise, workers have more disposable income to purchase goods, which leads to increased demand for goods, which leads to higher prices. As price rise, workers seek jobs with higher wages, leading to increased costs of producing goods, thereby creating more pressure to raise prices, theoretically creating an ever-increasing cycle of wage and price increases.

5. **stagflation** (n.) - A combination of high inflation, high unemployment, and low demand for goods, stagflation occurs when attempts to stabilize economic growth fall out of balance and become difficult to recalibrate.

It may also help to be familiar with vocabulary from the recent Current Event on inflation from January 18, 2022:

1. **Inflation** (n.) - A general increase in prices and fall in the purchasing value of money.

2. **Economic Policy** (n.) - The actions that governments take in the economic field. It covers the systems for setting interest rates and government budget as well as the labor market, national ownership, and many other areas of government interventions into the economy.

3. **Federal Funds Rate** (n.) - The interest rate that banks charge other institutions for lending excess cash to them from their reserve balances on an overnight basis.

4. **Consumer Price Index** (CPI) (n.) - An index of the variation in prices paid by typical consumers for retail goods and other items.

5. **Core Inflation** (n.) - The change in prices of goods and services except those from the food and energy sectors.

Current Event Essential Questions

Directions: As you read through news and other resources about the Federal Reserve and interest rate hikes, consider the following questions:

- ➢ Why was the Federal Reserve created?
- ➢ In the present day, how does the Federal Reserve fulfill its responsibility to ensure stability in the U.S. economy?
- ➢ How do the actions of the Federal Reserve affect the lives of everyday Americans, and the U.S. and global economies?
- ➢ How does the Federal Reserve balance public and private interests?
- ➢ Why are short-term interest rates expected to rise multiple times in 2022?
- ➢ If you were a member of the Federal Open Market Committee, would you vote to raise interest rates this year? Why or why not? (And if so, by how much?)
- ➢ In your opinion, what responsibility does the Fed have to consider the effects of its decision to raise or lower interest rates on forces such as wealth inequality, climate change, or disproportionate negative economic impacts on different racial groups?