

## ACTIVITY 1

### YOU ARE AN ECONOMIC ANALYST: DIAGNOSING THE ECONOMY

Part A Data Collection: Complete the following chart by collecting data provided in Handouts 1-4. In the last column you are asked to determine whether the data indicate an *increase*, a *decrease*, or an *inconsequential change*.

Part B Economic Analysis: Select Handout 4. Of the four components of GDP, (C), (I), (G), (NX), find the component that experienced the largest quarterly decline. In which quarter was this? What component experienced this decline? What two subcomponents experienced the largest decline in this quarter? Support your answer with numbers.

Part C Economic Analysis: What conclusions can you draw regarding inflation, national unemployment, selected state unemployment, and growth in real GDP? Would you characterize U.S. economy as experiencing a recession? Present your answer in a detailed 75-100 word paragraph. Use the back if needed.

Economic Component	Economic Component Defined	Ideal Range	2007	2008	2009	Change
Handout 1 Consumer Price Index (CPI)	Bureau of Labor Statistics (BLS) measures the change in prices of consumer goods and services.	1-3%				
Handout 2 National Unemployment	The BLS counts the number of persons who are in the labor force (age 16 and older and actively seeking work) and do not have a job.	“Full” employment: 4-5% of the labor force is unemployed				
Handout 3 State Unemployment (Select YOUR state and any second state)	National percentages in excess of 5% are often due to changes in the business cycle (cyclical unemployment). State unemployment higher than 5% is likely due to specific local conditions.	4-5%				
Handout 4 Real GDP	Real GDP is the total value (adjusted for changing prices) of the final goods and services produced by a nation in a given year.	2-3% growth rate in real GDP				

## ACTIVITY 2

### YOU ARE A GOVERNOR: MAKING MONETARY POLICY

Part 1: Given the economic situation you analyzed in Activity 1, your Board of Governors must choose from among the traditional tools available to the Fed. Color in or circle the policy action your Board of Governors recommends. Explain your choice of goals to the class, compare your answers with the other Governors, and review your answers with the teacher.

Part 2: The financial crisis is so severe that the governors need to develop additional tools. Reassemble your Board of Governors and choose how you might use the new tools given the goals and the crisis of 2007-2009. Circle the direction your board is recommending, for example, shorten or lengthen. As above, explain your choice.

Traditional Tools	Make your Decision. Would your Governors...	Specific Goals of New Tools	Make your decision. In which direction? Would your Governors...
Reserve requirement	↑ ↓	Change the due dates when banks and other financial institutions pay back loans to the Fed	Shorten or lengthen the due dates (maturity)
Discount rate	↑ ↓	Change the type of assets accepted as collateral in monetary policy operations	Broaden or narrow the assets accepted
Open market operations	Buy Sell	Lend money directly to financial institutions	Restrict or extend credit to more institutions than was customary
• Federal funds rate	↑ ↓	Purchase more short-term or long-term financial assets	Buy short-term or long-term financial assets