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Money and Inflation Lesson Plan

Overview

This lesson plan is an introduction to money and inflation, and how this impacts our buying and saving decisions everyday.

Objectives

By the end of the lesson, students will:

- Understand what money is and how it is created.
- Understand how inflation impacts their buying power and the prices of goods and services.
- Understand the role of governments and financial institutions in regulating the money supply.

Vocabulary

- **Deficit Spending** is the act of a government spending more money than they earn through taxation. This is financed by borrowing money.
- **Inflation** is the phenomenon where prices tend to increase over time. The inflation rate is how much prices, on average, have increased from one year to the next.
- **Interest Rates** (Real) The interest rate on a loan, minus inflation that has occurred over the previous year. The Real Inflation Rate can only be calculated in the past, since inflation is only measured in the past.
- **Money** is any item that serves as a unit of account, a store of value and medium of exchange within an economy.
- **The Federal Reserve** is a government institution in the United States charged with managing the country's money supply and fostering economic growth through the management of interest rates.

Standards

This Lesson Plan aligns to the CEE National Content Standards in Economics, Standard 11 (Money and Inflation).

Lesson Plan Includes

Direct Instruction	Presentations
Class Discussion	Technology-Based Activity
Full Class Activities	Worksheets
Small Group Activities	Assessments
Individual Activities	External Resources

Activity Summary

- Introduction
  - Time: 5 mins.
- PFL Stock Game
  - Time: 20 mins.
- 'What is Money?' Lesson
  - Time: 10 mins.
- 'Inflation' Lesson
  - Time: 17 mins.
- 'How is Money Created?' Lesson
  - Time: 10 mins.
- 'What is the Federal Reserve?' Lesson
  - Time: 10 mins.
- Inflation Auction Class Activity
  - Time 30 mins.
- Goods and Services Without Money
  - Time: 15 mins.

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Introduction

In this lesson, students will learn about the concepts of money and inflation.

They will understand that money makes trading, borrowing, saving, and investing easier, and that the amount of money in an economy affects the overall price level. They will also grasp the idea that doubling the amount of money in an economy overnight would not make people better off, as it would only lead to higher prices.

Furthermore, they will learn that unemployment imposes costs on individuals and the overall economy, and that inflation is costly and affects economic growth and standards of living. Overall, this lesson aims to help students make better decisions in their personal and professional lives and to understand the importance of money and market interactions in society.

Today, we will be learning about money and inflation.

- Let students know that money plays a crucial role in our daily lives, making it easier to trade, borrow, save, invest, and compare the value of goods and services.
- Explain that the amount of money in the economy affects the prices of goods and services, and that inflation is an increase in the overall price level that reduces the value of money.
- Engage students by asking them to imagine how their lives would be more difficult in a world with no money or in a world where money sharply lost its value.

Independent Activities

Activities designed for students to learn independently, either in class or as homework. Some activities include presentations if you prefer to use them for direct instruction instead of independent study.

Independent Activities Include:

1. PersonalFinanceLab Stock Game............**Time:** 20 Minutes
2. 'What is Money?' Lesson...........................**Time:** 10 Minutes
3. 'Inflation' Lesson...**Time:** 17 Minutes
4. 'How is Money Created?' Lesson..............**Time:** 10 Minutes
5. 'What is the Federal Reserve?' Lesson....**Time:** 10 Minutes

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1. PersonalFinanceLab Stock Game

Have students complete 20 minutes of the PersonalFinanceLab.com Stock Game. When setting up your class, make sure trade notes are mandatory. **For each trade they will record their decision-making process for why they bought or sold that security.** Students can download all their trade notes from their student accounts.

Time: 20 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type: Technology-Based Activity

Individual Activity/Homework

Class Discussion

Resource Links

Stock Game - Make A Trade (Stocks)

Trade Note Guidelines

Students must record at the minimum the following information for each of their trades:

- Company name
- Ticker symbol
- Open/close price
- A short description explaining their reasoning.

Discussion Questions

- Why do individuals invest in stocks, bonds, and other securities?
- How can changes in interest rates affect the value of securities in the stock market?
- How can inflation impact the performance of different sectors in the stock market?
- How does the creation of money through loans affect the availability of funds for investing in the stock market?

Key Takeaways

- Securities such as stocks, bonds, mutual funds, and cryptocurrencies offer varied investment opportunities.
- Global economic events influence the dynamics of the financial markets, causing values of investments to fluctuate.
- Inflation alters the value of money over time, making some investments serve as 'inflation hedges'.
    - An inflation hedge is an investment that is expected to increase in value over time.
- With the cost of goods and services rising due to inflation, investing can provide a means for your money to keep pace with or exceed inflation, preserving or increasing your purchasing power.

2. 'What is Money?' Lesson

Assign your students the 'What is Money?' lesson on PersonalFinanceLab.com. This lesson defines the functions of money, as a medium of exchange, unit of account and a store of value. Then, the lesson explains different types of stored value, with some notes on credit cards and cryptocurrencies. This lesson also includes a short animated video and an interactive check for students to fill-out.
They will be required to complete the quiz at the end of the lesson. If used as homework, follow up the next day with discussion questions.

Time: 10 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:
- Technology-Based Activity
- Individual Activity/Homework
- Class Discussion
- Presentation
- Assessment

Resource Links

[What is Money? (personalfinancelab.com)]

Presentation

[What is Money? GoogleSlides Presentation]

Discussion Questions

1. As technology continues to evolve in our society, is it possible that the way we store our money and pay for transactions will change? What do you think that process might look like 15 years from now?
2. What additional security measures do you see happening in the future to keep scammers from fraudulently stealing people's money?
3. Describe other potential forms of money and discuss why they might fail the 3-item test.

Key Takeaways

- Money serves as a **medium of exchange**, allowing for the smooth trade of goods and services.
- It acts as a **unit of account**, providing a standard measurement of value for different goods and services.
- Money serves as a **store of value**, allowing individuals to save their wealth and use it for future expenses.
- It facilitates economic activity by enabling transactions and supporting market operations.

3. 'Inflation' Lesson

Assign your students the 'Inflation' lesson on PersonalFinanceLab.com. This lesson explains the different methods of measuring inflation, including the GDP deflator and shows how it's calculated. It goes on to explain the impact of inflation on the economy, deflation, long-term inflation, and hyperinflation. This lesson also includes a short, animated video. Students will be required to complete the quiz at the end of the lesson. If used as homework, follow up the next day with discussion questions.

Time: 17 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:
- Technology-Based Activity
- Individual Activity/Homework
- Class Discussion
- Presentation
- Assessment

Resource Links

Inflation (personalfinancelab.com)

Presentation

Inflation GoogleSlides Presentation

Discussion Questions

1. Why might deflation be bad for the economy?
2. How does inflation impact the buying power of consumers? Provide examples.
3. How does inflation erode the value of savings? Explain the concept of real interest rates.
4. How does inflation promote economic growth? Discuss the role of spending and investment in the economy.
5. What are the potential consequences of extreme cases of inflation, such as hyperinflation?

Key Takeaways

- Inflation is the increase in the general prices of goods and services.
- Inflation reduces the purchasing power of money.
- Inflation is measured with the Consumer Price Index (CPI).
- Inflation erodes interest rates and promotes economic growth.
- Hyperinflation can cause economic collapse.

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4. 'How is Money Created?' Lesson

Assign your students the 'How is Money Created?' lesson on PersonalFinanceLab.com. This lesson explains how money evolved from the Gold Standard to being created by debt. It also highlights the crucial role of banks and their relationship between businesses and individuals who make deposits and take out loans, and the government.
Students will be required to complete the quiz at the end of the lesson. If used as homework, follow up the next day with discussion questions.

Time: 10 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:
- Technology-Based Activity
- Individual Activity/Homework
- Class Discussion
- Presentation
- Assessment

Resource Links

How is Money Created? (personalfinancelab.com)

Presentation

How is Money Created? GoogleSlides Presentation

Discussion Questions

1. How does the creation of money through loans impact the total amount of money in circulation?
2. What is the role of reserve requirements in preventing banks from loaning out the same dollar infinitely?
3. Why did the United States move away from the Gold Standard and how did this change the way money is created and backed?

Key Takeaways

- Money in the United States (and many other countries) is created as a form of debt.
- Banks create loans for people and businesses.
- Reserve requirements prevent banks from loaning out the same dollar infinitely.
- Money created by debt is ultimately used to produce goods and services.
- The Gold Standard was ended in the United States in 1976.
- Today, currency is indirectly backed by the value of goods and services produced using borrowed funds.

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5. 'What is the Federal Reserve?' Lesson

Assign your students the 'What is the Federal Reserve?' lesson on PersonalFinanceLab.com. This lesson explains how the 'Fed' is the central banking system of the United States. The Federal Reserve regulates the money supply by controlling interest rates, which in turn affects economic growth, inflation, and borrowing by businesses and individuals.

Students will be required to complete the quiz at the end of the lesson. If used as homework, follow up the next day with discussion questions.

Time: 10 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:
- Technology-Based Activity
- Individual Activity/Homework
- Class Discussion
- Presentation
- Assessment

Resource Links

What is the Federal Reserve? (personalfinancelab.com)

Presentation

What is the Federal Reserve? GoogleSlides Presentation

Discussion Questions

1. How does the Federal Reserve regulate the economy through its control of interest rates?
2. Provide examples of how changes in interest rates might affect businesses and individuals?
3. Why is it important for the Federal Reserve to maintain a stable inflation rate?
4. What role does the Federal Reserve play in regulating the banking system? How does its function as the "lender of last resort" contribute to the stability of the banking industry?

Key Takeaways

- The Federal Reserve Bank serves as the central banking system of the United States.
- Responsible for regulating the US dollar and maintaining its stability.
- Controls interest rates to influence the money supply, economic growth, and inflation.
- Acts as a lender of last resort for other banks, providing overnight loans to ensure liquidity.
- Conducts extensive economic research, analyzing various aspects of the economy and monetary policy.
- The Fed is divided into 12 branches, serving different territories across the United States.

Full Class & Small Group Activities

Full Class Activities are designed for whole-class participation. These are best used along with the direct instruction portion of the lesson.

Full Class Activities Include:

6. Inflation Auction Class Activity.....................**Time:** 30 Minutes

Small Group Activities are designed for small groups of 3-4 students. These resources are best used after full-class direct instruction and activities.

Small Group Activities Include:

7. Goods and Services Without Money............**Time:** 15 Minutes

6. Inflation Auction Class Activity

In this activity, students participate in a simulated auction where they can bid on gift cards or other items like a hall pass, or homework pass. The auction is conducted in two rounds, and students are given a certain amount of "money" to bid with.

Time: 30 Minutes

Required Resources: A bag of dried beans, Pear Deck Account & items for auction

Type: Full Class Activity, Class Discussion, External Resource

External Resource Links

By the Foundation for Teaching Economics.
Pear Deck & Screen Sharing – Instructions & Tips

Instructions

Auction off 2-3 gift cards or other items that can easily be distributed electronically (tardy pass, homework pass, etc), in each of 2 rounds.

1. **Give students "money" to bid with, (beans).**
    a. The number of letters in their first name is how much money they have to bid with in round 1. Ex: Debbie = $6 because there are six letters in her name.
    b. For round 2 students can add the number of letters in their middle and last names.
2. **Auction Round 1.**
    a. Students bid by entering their name in Pear Deck and the number of letters in their FIRST name that they wish to bid.
    b. To enter another bid during Round 1, they should add another entry via Pear Deck.
    c. Tell students there will be another round, but this time they can bid with letters from their FIRST and LAST names. If they have leftover letters from round 1, they can be used in round 2.
3. **Auction Round 2.**
    a. Run a second auction and auction of the same items again.

Discussion Questions

1. Did the items get more valuable?
    a. *No. The value of the items didn't change from round 1 to round 2.*
2. Did giving people more money result in more people getting gift cards?
    a. *No. Gift cards are still scarce.*
3. Who bid the prices up?
    a. *They did.*
4. Why were you willing to pay more?
    a. *They had more money to bid with.*
5. Was letter money more valuable in round 1 or round 2?
    a. *Round 1. A few letters would buy something in the first round. Those same letters wouldn't buy anything in the second round.*

Key Takeaway

Explain that what they just witnessed is called inflation.

7. Goods and Services Without Money

In this activity, divide the class into groups of 3-4 students. Instruct each group to list five goods and services they want; then brainstorm how they will obtain these items without using money.

Time: 15 Minutes

Type: Small Group Activity
Class Discussion

Required Resources: Whiteboard and markers or large white paper and pens/markers.

Instructions

1. Divide the class into groups.
2. Depending on class supplies, students can use whiteboards, a large paper or any other device to write down their ideas.
3. Give students 5 minutes to list 5 goods and services they want. Then, they should brainstorm together how they will obtain these items without using money.
4. Bring the class back together and invite each group to share one or two items from their lists, and the alternative methods of obtaining them.
5. Encourage students to explain their choices and reasoning.

Discussion Questions

1. What items have been used as money throughout history?
2. How is using a debit card or cash different from a credit card?
3. What are the risks and benefits of using digital forms of money?

Key Takeaways

- This exercise can demonstrate the challenges and limitations of non-monetary transactions and the reasons money was developed as a solution.

Below are some examples of non-monetary transactions:

- **Bartering:** Trading items or services that you have for those that you need.
- **Working for goods or services:** Exchange services or time for what's needed.
    - For example, mowing lawns or babysitting in return for goods or services.
- **Borrowing:** Using community resources like libraries or tool lending services.
- **Crowdfunding or Sponsorship:** For larger needs, convincing others of the value in supporting your goal.
- **Volunteering:** Some organizations or events offer goods or services in return for volunteer work.

Conclusion

Money is a remarkable invention that has greatly enhanced the efficiency of market transactions. Its introduction has allowed for easier exchange of goods and services, eliminating the need for a cumbersome barter system.

Banks play a crucial role in supporting market operations by expanding the money supply available to individuals and businesses. However, there is a potential downside to this process - inflation.

Inflation occurs when the growth of the money supply outpaces the growth of production, resulting in a general increase in prices and a decrease in the purchasing power of money. To prevent this, central banks, like the Federal Reserve in the United States, manage price levels and interest rates by manipulating the money supply.

Despite the central bank's efforts to control inflation, its occurrence can create disruptions and losses in the overall economy. As inflation erodes the value of money, buyers and sellers may change their behavior to mitigate its effects, leading to economic distortions.

Key Takeaways

- Money is an innovation that significantly improved the operation of markets.
- Banks facilitate the operation of markets by expanding the quantity of money in circulation.
- Inflation is a consequence of the money supply growing faster than production.
- The Federal Reserve manages price and interest rate levels by changing the money supply.
- Inflation creates disruptions and losses in the overall economy as buyers and sellers act to avoid its effects.