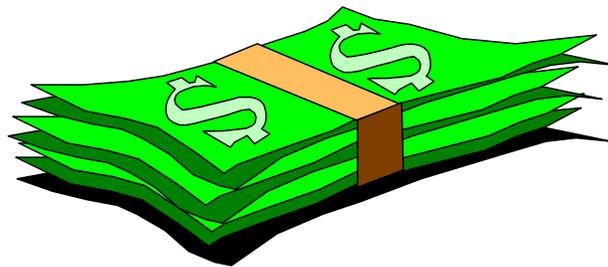


# **We're In the Money**

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**Federal Reserve Bank of Atlanta**

**Lesson Plan Contest 2007**

**Third Place**

## LESSON DESCRIPTION

In this lesson students study money and its place in the economy. They participate in a barter activity to understand the need for money, and then they use a comic book to learn about how money works in a society. Finally they explore both our modern money and money in our history.

## BACKGROUND INFORMATION

The function of money is to serve as a medium of exchange, a standard of value for goods and services, and a store of value. Money should then be considered as a cornerstone of modern economic life. The Federal Reserve (the Fed), serves as the nation's central bank. The Federal Reserve System was created in 1913 to control the money supply through monetary policy. It consists of a Federal Board of Governors and 12 Regional Federal Reserve Banks. If the Fed is fighting unemployment and a diminishing GDP, it will increase the money supply; or it will decrease the money supply to fight inflation.

## GRADE LEVEL

Middle School

## CONCEPTS

Money  
Commodity Money  
Barter  
Double Coincidence of Wants  
Characteristics of Money  
Functions of Money  
The Money Supply  
The Federal Reserve  
Monetary Policy  
History of Money

## NATIONAL CONTENT STANDARDS IN ECONOMICS

### Standard 11—The Role of Money

- **Benchmark 1 for fourth grade:** Money is anything widely accepted as final payment for goods and services.
- **Benchmark 2 for fourth grade:** Money makes trading easier by replacing barter with transactions involving currency, coins, or checks.

- **Benchmark 5 for fourth grade:** Most countries create their own currency for use as money.
- **Benchmark 1 for eighth grade:** As a store of value, money makes it easier for people to save and defer consumption until the future.
- **Benchmark 2 for eighth grade:** As a unit of account, money is used to compare the market value of different goods and services.
- **Benchmark 1 for twelfth grade:** The basic money supply in the United States consists of currency, coins, and checking account deposits.

### Standard 20—Monetary and Fiscal Policy

- **Benchmark 8 for 12th grade:** Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment, and prices in the economy by inducing changes in interest rates charged for credit and by affecting the levels of personal and business investment spending.

## OBJECTIVES

Students will be able to

- Define money as anything widely accepted as final payment for goods and services;
- Describe some items that have been used as commodity money;
- Identify barter as the direct exchange of goods or services without the use of money;
- Observe that barter takes time because sometimes it is difficult to find a match of wants;
- Explain that money makes trading easier and faster;
- Describe the characteristics of money;
- Explain the functions of money;
- Identify the components of the money supply;
- Understand how the Federal Reserve uses monetary policy to curb inflation or to speed up a slowing economy; and
- Describe some elements in the history of money.

## TIME REQUIRED

About two class periods

## MATERIALS

- Comic book: *Once Upon a Dime*. Federal Reserve Bank of New York.
- Pamphlet: *Dollars and Cents: Fundamental Facts about U.S. Money*. Federal Reserve Bank of Atlanta.
- Computer Disk: *The American Currency Exhibit*. Federal Reserve Bank of San Francisco.
- Booklet: *The Story of American Currency*. Federal Reserve Bank of San Francisco
- Optional: Booklet: *Closed for the Holiday—The Bank Holiday of 1933*. Federal Reserve Bank of Boston. (use in Activity 3)
- Optional: Comic book: *The Story of the Federal Reserve System*, Federal Reserve Bank of New York. (use in Activity 3)
- Optional: *The Many Roles of the Fed*, Federal Reserve Bank of San Francisco, online at <http://www.frbsf.org/publications/federalreserve/feinbrief/roles.html> (use in Activity 3)
- *Note*: Order copies of the above publications from the Federal Reserve at <http://www.newyorkfed.org/publications/frame1.cfm>
- Web site: *History of Money*. Federal Reserve Bank of Minneapolis. <http://www.minneapolisfed.org/econed/curric/history.cfm>
- Web site: *History at Your Fingertips & Spirit of the Nation*. Federal Reserve Bank of Boston. <http://www.bos.frb.org/education/pubs/history.pdf>
- Web site: *Benjamin Franklin and the Birth of a Paper Money Economy*. Federal Reserve Bank of Philadelphia. <http://www.philadelphiafed.org/education/ben-franklin-and-paper-money-economy.pdf>
- Historical Figures Bookmarks from the Federal Reserve Bank of Richmond. Order from: [http://richmondfed.org/publications/educator\\_resources/historical\\_figures\\_bookmarks/index.cfm](http://richmondfed.org/publications/educator_resources/historical_figures_bookmarks/index.cfm)

- Visual 1: The Characteristics of Money
- Visual 2: The Functions of Money
- Activity 1: Barter Items (one copy on cardstock—cut out individual cards)
- Activity 2: *Once Upon a Dime* comic book questions (two pages duplicated back to back, making one copy per group)
- Activity 3: The History of the Federal Reserve (optional—one copy for the teacher)
- Activity 4: Assessment (one copy per student)
- 3 x 5 cards (about three per student)
- Optional: Reproductions of early American money
- Art materials for creating money designs
- A small prize for the money design winner

## PROCEDURE

### Introduction

1. On the day before this lesson begins, tell students that they will be exploring information about money on the following day. Explain that money can be anything widely accepted as final payment for goods and services. Discuss items that have been used as money in the past, such as shells, beads, coins, cigarettes, tea, fishhooks, fur, livestock, tobacco, or even woodpecker scalps. Explain that these items are called *commodity money*.
2. Ask students if there is any way to get things they want without using money. (Ideally, some students will suggest trading to get something they want.) Write the word *barter* on the chalkboard and define it as the direct exchange of goods and services without using money. Ask students to give examples of barter exchanges that they have experienced.
3. Randomly give each student a card from *Activity 1: Barter Items*. Tell students to pretend that they actually have the item on their card. Then tell students to stand up and walk around the classroom, trying to make a trade for someone else's item. Explain that they should not trade unless they feel that they would be better off after

the trade. Allow several minutes for students to attempt exchange. Have students return to their seats and discuss the problems they had trying to carry out their trades.

4. Explain that in a barter economy, a person having something to trade must find another trader who not only has something the original trader wants but who also wants what the original trader has to trade. This is called a *double coincidence of wants* and is the great difficulty with barter. This is the reason that over time people have turned to using money more often in trade instead of barter.
5. Distribute to each student a copy of the comic book *Once Upon a Dime*. Explain that this comic book was produced by the Federal Reserve and will tell them much about money. Tell students they should read the comic book for homework and be prepared to answer questions about the story the next day.

#### Day 1

6. On the following day divide students into groups of about four to five students per group. Instruct students to select one member of their group to be the recorder. Give the recorder in each group a copy of *Activity 1: Once Upon a Dime* comic book questions.
7. Instruct students to use their comic books and work together within their groups to find and record the answers to the questions on the activity page.
8. After all groups have completed the worksheet, guide students in a class discussion. Discuss the following answers to the questions for Part One:
  - a. List people who lived on Mazuma Island and the goods and services they each could supply. (pp. 2–4) ***(King Bomba ruled the island, Mr. and Mrs. Wingit cut coconuts & bananas, Blossom Frisbee grew flowers, Captain Sharkey speared fish, Nat the Net made nets, Spike made spears, Dr. Millicent Diligent cared for the sick,***

***and Bloomfield painted and played music.)***

- b. The people on Mazuma had trouble trading. Describe the difficulty that Captain Sharkey and Dr. Millicent Diligent had when they wanted to get flowers for their wedding. (pp. 5–7) ***(Captain Sharkey had to trade a fish to Spike to get a spear, then he had to trade the spear to the Wingits to get a coconut, then he had to trade the coconut to Nat to get a net; and finally he had to trade the net to Blossom for the flowers.)***
  - c. The people of Mazuma wanted to find an item that they could use as money to make their trading easier. Why did they decide that they could not use fish as money? (p. 8) ***(Fish would be hard to carry around and would not keep very well.)***
  - d. What did they decide to use as money, and why? (pp. 8–9) ***(They decided to use Bloomfield's "dimes" as money because they were small, light, and easy to carry around, and they couldn't be easily copied.)***
9. After discussing the questions in Part One, display *Visual 1: The Characteristics of Money*. Discuss how Bloomfield's dimes had the first three characteristics on this list and how our American money has these characteristics as well.
    - Money must be widely accepted. *(If people will not take the money in trade for goods and services, it would not be usable.)*
    - Money must be durable. *(Eggs would not make good money because they would smell bad after a few weeks.)*
    - Money must be easy to carry. *(If cows were used as money, they would be hard to keep handy for trade.)*
  10. Discuss the following answers to the questions for Part Two:
    - a. What was the problem when the tourists came? (pp. 10–11) ***(Big purchases took too many "dimes," which were***

*hard to carry around in large amounts.)*

- b. How did they solve the dime problem? (pp. 12–13) *(With “duller” stones and finally paper dollars as well as dollars in other denominations)*
  - c. Where did the people of Mazuma put their extra money? (p. 14) *(They put it in Bloomfield’s storage building by the river, called the River Bank.)*
  - d. How did checks get started on the island? (pp. 14–17) *(When the king got sick, he sent a letter asking Bloomfield to give some of his money to the doctor for her services.)*
  - e. How did bank loans get started? (pp. 16–17) *(Nat the Net wanted to borrow money for his business, and Bloomfield charged him interest.)*
11. After discussing the questions in Part Two, return to *Visual 1: The Characteristics of Money* and discuss how Mazuma’s money is now divisible, just as our American money is.
- Money must be divisible, so that people can trade things of different values. *(When money is divisible, it is easier to pay exactly what an item is worth )*
12. Write the words “*Money Supply*” on the chalkboard, and explain to students that our country’s money supply includes all paper money and coins as well as all deposits in checking accounts in banks.
13. Discuss the following answers to the questions for Part Three:
- a. Describe the new problem on the island when goods and services became scarce. (pp. 18–19) *(Inflation struck and all prices went up. No one could afford to buy things.)*
  - b. What did Gwendolyn and Bloomfield decide? (p. 20) *(They decided that the growing economy of Mazuma needed the right fit with money, just like Gwendolyn’s shoes; that meant slowing down the amounts that banks would loan.)*
  - c. What did the king do to slow down the loans? (p. 21) *(King Bomba set up a central bank to control the money—the Federal Reserve. This cut down the inflation and prices stopped rising.)*
  - d. What would the Federal Reserve do when there wasn’t enough money? (pp. 22–23) *(It would release money to the banks to lend out.)*
14. Explain two ways in which the Federal Reserve can use *monetary policy* to help the economy:
- When the economy needs to grow, the Fed makes more money available for loans, thus increasing the money supply.
  - When the money supply gets too large, and inflation (high prices) gets started, the Fed cuts down on the availability of loans and decreases the money supply.
15. After the comic book discussion is complete, display *Visual 2: The Functions of Money*. Discuss:
- When you trade money for items such as coconuts or spears, it is easier because money is a medium of exchange, and it eliminates the need to find someone who has what you want and wants what you have.
  - Suppose Nat was trying to trade a net. How many fish would it be worth? Or how many flowers would it bring? It would be easier to compare the value of these products if you use money as a measure of value.
  - What would happen if Captain Sharkey did not want to trade all of his fish now? Could he save them until next month and trade them? The fish would not be good to eat then, so they are not a very good way to store value. But he could save his money and spend it next month. So money is a store of value.
16. Tell students that they will be examining American money tomorrow instead of the money of Mazuma. Distribute copies of *Dollars and Cents: Fundamental Facts about*

*U.S. Money*, and tell students to read this pamphlet for homework.

## Day 2

17. At the beginning of the class discuss with students some of the interesting information they discovered in the *Dollars and Cents* pamphlet that they read for homework. Point out the famous Americans and well-known public buildings and symbols from American history that we have on both the currency and the coins.
18. Tell students that today they will see how much our currency has changed in the past 200 years. Distribute 3 x 5 cards (about three to each student). Tell them to find something interesting to write on each card about the early American currency that they will be exploring today. Explain that students who have something interesting on their cards to contribute to the class discussion later will receive a small prize.
19. Have students use one or more of the following methods to investigate the history of our money.
  - a. Distribute the booklet *The Story of American Currency* and have students explore early American money.
  - b. Show students reproductions of early American money.
  - c. Have students work in small groups on computers, using the disk *The American Currency Exhibit* to explore the history of money in the United States.
  - d. Have students work in small groups on computers, exploring the following internet sites:
    - *The History of Money*. Federal Reserve Bank of Minneapolis.  
<http://www.minneapolisfed.org/econed/curric/history.cfm>
    - *History at Your Fingertips & Spirit of the Nation*. Federal Reserve Bank of Boston.  
<http://www.bos.frb.org/education/pubs/history.pdf>
    - *Benjamin Franklin and the Birth of a Paper Money Economy*. Federal Reserve Bank of Philadelphia.  
<http://www.philadelphiafed.org/education/ben-franklin-and-paper-money-economy.pdf>
20. After students have had time to explore the history of money, have them participate in a discussion of what they discovered, using the information they have collected on their 3 x 5 cards. As students contribute information to the discussion, reward them with bookmarks from the Richmond Federal Reserve.
21. Optional for Advanced Classes: Show students the booklet, *Closed for the Holiday—The Bank Holiday of 1933*. Summarize information from the booklet and tell them about the history of the Federal Reserve as found in *Activity 3: History of the Federal Reserve*.
22. Review closure questions below with students. Remind students that they will have a test on money on the following day.
23. Give students a homework assignment to design a new dollar bill for the United States using current designs, symbols, and people instead of the historical ones we see on our real money. Distribute art materials as needed for this project.
24. Explain to students that they will be allowed to view each other's work on the following day and vote on the new dollar that they like best, and that the winner will receive a prize.
25. On the following day, have the class vote and select the winning money designs and award the prize.
26. Administer the test *Activity 4: Assessment* as suggested below.

## CLOSURE

Use the following questions to review the main points of the lesson:

1. Define barter. (***Barter is the direct exchange of goods and services without the use of money.***)
2. What is money? (***Money is anything that is widely accepted as final payment for goods and services.***)

3. Why is barter difficult? *(Barter takes time because sometimes it is difficult to find a match of wants, called the double coincidence of wants.)*
4. Define commodity money and list examples. *(Items that have been used as money in the past are called commodity money and include such things as shells, beads, coins, cigarettes, tea, fish hooks, fur, livestock, tobacco, and even woodpecker scalps.)*
5. What are the fundamental characteristics of money? *(Money must be widely accepted in payment for goods and services, durable, easy to carry, and divisible.)*
6. Describe the functions of money in our society. *(Money functions as a medium of exchange, a measure of value, and a store of value.)*
7. What are the components of the money supply? *(currency, coins, and checking account deposits)*
8. What can the Fed do to the money supply to help the economy and why? *(The Fed can increase the money supply when the economy is slowing down. The Fed can also decrease the money supply when inflation starts. This is called monetary policy.)*
9. What do we find on our currency and coins? *(On our money we see pictures of famous Americans and well-known buildings and symbols that are important to our history.)*

## ASSESSMENT

Distribute to each student a copy of *Activity 4: Assessment*. Direct students to fill in the answers at the top of the page, and mark the true/false statements at the bottom of the page. Allow time for students to complete their

work. After the students have turned in their papers, go over the following correct answers with students.

### Assessment Answers:

1. Give a definition of money. *(Money is anything that is widely accepted as final payment for goods and services.)*
2. What is barter and what problems are involved with it? *(Barter is the direct exchange of goods and services without the use of money. It is often difficult to barter because it is hard to find a match of wants.)*
3. List the characteristics money should have. *(Money should be widely accepted in payment for goods and services, durable, easy to carry, and divisible.)*
4. Name some commodity money. *(shells, beads, coins, cigarettes, tea, fish hooks, fur, livestock, tobacco, or even woodpecker scalps)*
5. List the three functions (purposes) that money has in our society. *(medium of exchange, measure of value, store of value)*

### True/False Statements:

1. Our central bank is called the Federal Reserve. *(true)*
2. Tomatoes would work well as money. *(false)*
3. The money supply is made up of currency, coins, and checking account deposits. *(true)*
4. The double coincidence of wants makes bartering easy. *(false)*
5. The Federal Reserve uses monetary policy to help the economy grow or to stop inflation. *(true)*

**Visual 1**  
**CHARACTERISTICS OF MONEY**

**Money must be:**

- 1. widely accepted for goods and services**
- 2. durable**
- 3. easy to carry**
- 4. divisible**

## Visual 2

# THE FUNCTIONS OF MONEY

**Money serves three purposes in our society:**

### **1. Medium of Exchange**

People accept money in exchange for goods and services.

### **2. Measure of Value**

The value of a good or service can be measured with money. For example, an item with a price of \$2,000 is worth twice as much as an item with a price of \$1,000.

### **3. Store of Value**

Money can be saved and used in the future.

Activity 1:  
**Barter Items**

<b>a radio</b>	<b>a pencil</b>	<b>baseball cap</b>
<b>a magazine</b>	<b>music CD</b>	<b>a bracelet</b>
<b>movie video</b>	<b>a necklace</b>	<b>notebook paper</b>
<b>book</b>	<b>candy bar</b>	<b>pen</b>
<b>CD player</b>	<b>bike</b>	<b>a pack of gum</b>
<b>a backpack</b>	<b>a sandwich</b>	<b>a skateboard</b>
<b>a T-shirt</b>	<b>a bag of chips</b>	<b>nail polish</b>
<b>a soda</b>	<b>a puppy</b>	<b>electronic game</b>
<b>a notepad</b>	<b>a lamp</b>	<b>a poster</b>
<b>cell phone</b>	<b>donut</b>	<b>a ring</b>



## Activity 2: Once Upon a Dime Comic Book Questions (page 2)

- b. How did they solve the dime problem? (pp. 12-13)
  
- c. Where did the people of Mazuma put their extra money? (p. 14)
  
- d. How did checks get started on the island? (pp. 14–17)
  
- e. How did bank loans get started? (pp. 16–17)

### **Part Three**

- a. Describe the new problem on the island when good and services became scarce. (pp. 18–19)
  
- b. What did Gwendolyn and Bloomfield decide to do? (p. 20)
  
- c. What did the king do to slow down the inflation? (p. 21)
  
- d. What would the Federal Reserve do when there wasn't enough money? (pp. 22–23)

## Activity 3: History of the Federal Reserve

Use the following information from *Closed for the Holiday—The Bank Holiday of 1933*.

Part 1—Federal Reserve Early Response (from “Bad to Worse” section, p. 6). In the early 1930s, the Fed still had a reluctance to change monetary policy. Instead, they put more importance on preserving the gold standard to which the dollar was held. Britain dropped the gold standard in 1931. Investors from abroad strained the U. S. gold reserves when they withdrew their funds. The Fed responded by increasing interest rates.

Part II—After the 1929 stock crash, President Hoover and Congress put a high priority on reform, but could not agree. In 1931, bankers launched the National Credit Corporation to loan money to banks that couldn’t borrow from the Federal Reserve. In 1932, in response to Hoover’s pressure, Congress passed the Reconstruction Finance Corporation Act for smaller financial institutions.

Part III—In 1932, depositors were withdrawing money and demanding gold and gold certificates instead of Federal Reserve notes. State governors took action because there were no federal reforms. Governors of Nevada, Louisiana, Maryland, Arkansas, Ohio, and Michigan declared bank holidays to stop runs on banks in their states. George Harrison, head of the New York Federal Reserve, sent messages that the New York Federal Reserve’s gold reserve was below the legal limit and a national bank holiday should be declared until they could come up with a plan.

Part IV—The Emergency Banking Act placed banks in one of three categories: Class A-solvent banks, allowed to reopen first; Class B-banks capable of reopening after reorganization; and Class C-insolvent banks that could not reopen. The Glass-Steagall Act provided for the creation of the Federal Deposit Insurance Corporation (FDIC) under new legislation and provided a federal guarantee of deposits. It also provided for the Federal Open Market Committee (FOMC), which reorganized the Federal Reserve’s authority to handle monetary policy.

The structure of the Federal Reserve begins with the Board of Governors. These seven people are appointed by the U.S. president and confirmed by the Senate. Each member serves for a term of 14 years. The president appoints the chairperson for a four-year term. These terms may be renewed. Give details about the 12 Regional Federal Reserve Banks, which are located in major cities around the United States. Each Federal Reserve Bank has a board of directors, which selects the president of that bank. This board of directors is representative of the regional business and banking organizations.

Procedure:

Give students the handout “The Many Roles of the Fed.” This article from the San Francisco Federal Reserve separates the regulatory role of the Fed from the lender role and the monetary policymaker role. Have students work in three small groups and highlight each role for an oral group report. In working on this project, allow students to use their *The Story of the Federal Reserve System* comic book.

## Activity 4: Assessment

1. Give a definition of money.
2. What is barter and what problems are involved with it?
3. List the characteristics money should have.
4. Name some commodity money.
5. List the three functions (purposes) that money has in our society.

Read the following statements. Put "T" before the true statements and "F" before the false statements.

- \_\_\_\_\_ 1. Our central bank is called the Federal Reserve.
- \_\_\_\_\_ 2. Tomatoes would work well as money.
- \_\_\_\_\_ 3. The money supply is made up of currency, coins, and checking account deposits.
- \_\_\_\_\_ 4. The double coincidence of wants makes bartering easy.
- \_\_\_\_\_ 5. The Federal Reserve uses monetary policy to help the economy grow or to stop inflation.