

Monetary Policy

Simulation Game

# Chair the Fed



<http://sffed-education.org/chairthefed/WebGamePlay.html>

# Objectives

- Assess economic conditions within the Chair the Fed game environment
- Demonstrate the appropriate use of the fed funds rate in reaching inflation and unemployment goals
- Evaluate monetary policy decisions based on the levels of inflation and unemployment

# Instructions

- The Fed's dual mandate for **price stability** and **maximum employment**.
- Your team is the Federal Open Market Committee who conducts monetary policy by setting the policy interest rate (*the Fed funds rate*) to reach its **objectives of having**
  - **Unemployment rate at 5%**
  - **Inflation rate at 2%**
- The game initially set Fed funds rate = 4.00%, unemployment = 4.68%, inflation = 2.11%
- **Raising** the fed funds rate tends to increase unemployment and decrease inflation
- **Cutting** the fed funds rate tends to decrease unemployment and increase inflation
- Your term is 4 years or 16 quarters

# Instructions

- Start the game by clicking on the “Go” button (assume the fed funds rate was unchanged in the first quarter).
- *Pay attention to the headlines for information about the economy.*
- Evaluate the inflation and unemployment rates and make a decision about the fed funds rate. Call for the vote (1 person 1 vote).
- Record data in the *Data Sheet* in each quarter
  - News
  - Levels for inflation, unemployment, and the fed funds rate
  - Your team decision (raise/ cut/ unchanged)
  - Rate adjustment (also note how many basis points you decide to change)
- Continue the game by clicking on the “Go” button

# Game Screen

Adjust the fed funds rate below, then press GO.

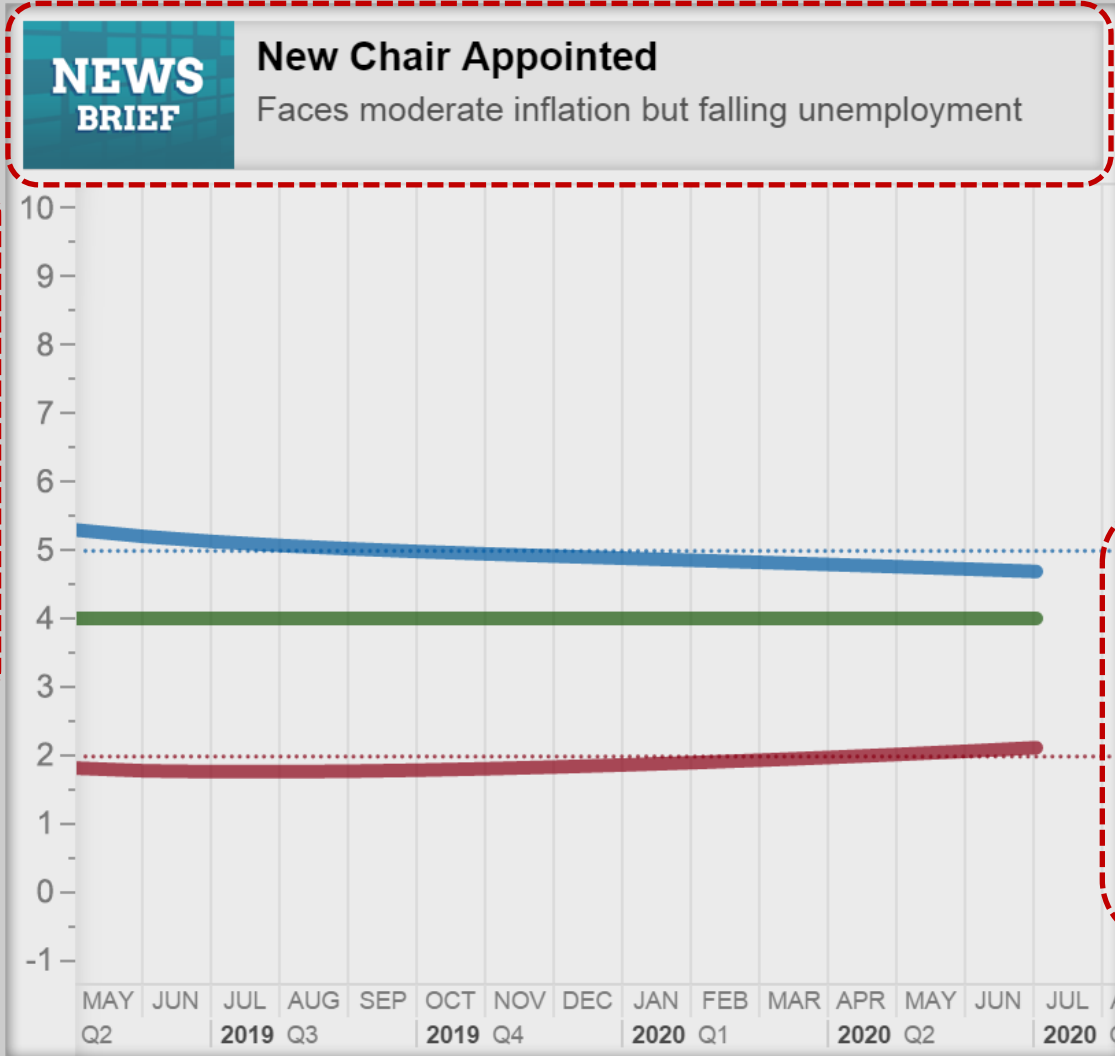


**+**  
RAISE

**-**  
CUT

**GO**

START OVER



16

Quarters remaining in your term

4.00%  
Fed funds rate

4.68%  
Unemployment

2.11%  
Inflation

# Data Sheet: Can You Keep the Economy on Track?

- At the beginning of each quarter of the game, compare the current levels of **unemployment** and **inflation** to the Fed’s goals for each.
- As a team, decide to **raise, cut, or leave unchanged** the level of the fed funds rate and record this in the “**Team Decision**” box.
- Once the class vote is in, record the outcome in the “**Majority Decision**” box.
- Record the Team decision’s level of the fed funds rate in the “**Rate Played**” box

QTR	Headline Summary	Fed Funds Rate (beginning)	Unempl. Rate	Inflation Rate	Team Decision	Majority Decision	Rate Played
16	New Chair Appointed: Faces moderate inflation but falling unemployment	4.00%	4.68%	2.11%			
15							
14							
13							

# Game result:

The game ends on an announcement screen indicating “**Congratulations**” if the Chair has kept the economy on track (close to the goals for inflation and unemployment), or “**Sorry**” if the goals have not been met.

## Congratulations!

You have been confirmed for another term as Chair of the Federal Reserve.

Here are the economic conditions in the final year of your term:

Unemployment rate	5.17%
Inflation rate	1.27%

There was a stock market surge during your term.  
Play again to guide the economy through a different scenario.

## Sorry.

Because of disappointing economic results you have not been reappointed.

Here are the economic conditions in the final year of your term:

Unemployment rate	1.50%
Inflation rate	11.48%

There was a housing market crash during your term.  
Play again to guide the economy through a different scenario.

It's your turn.

Start your own FOMC meeting!

# Group discussions

1. How did the game end? What was the most extreme value for inflation and unemployment during your term?
2. What would you do differently next time you play the game?
3. How was the information different in “Breaking News” and “News Brief”? Should you take the same level of policy action?
4. What was the name of the *shock* that occurred during the game? How did you react to the shock?