

16.10: Chair the Fed

Learning Objectives

- Explain the structure and key functions of the Federal Reserve
- Explain how the Federal Reserve System implements monetary policy

We have now seen that the Fed has three primary goals and a set of tools at its disposal to help it achieve these goals. If *you* were the chairperson of the Federal Reserve, do you think that you could accomplish these goals? Let's find out!

After reading the following information, click on the Chair the Fed link below, which will take you to the Federal Reserve Bank of San Francisco Web site, where **YOU** will act as the Chair of the Fed. By manipulating the fed funds rate, you will try to keep inflation and unemployment at target rates.

Instructions for Playing the Game



The game puts the player in the role of setting monetary policy as Chair of the Fed. The goals are as follows: inflation (2 percent) and unemployment (5 percent). Remember that the fed funds rate is the primary tool for monetary policy and is shown on the game screen (green line in the chart area is initially set at 4 percent rate).

Record the starting levels for inflation, unemployment, and the fed funds rate (2.11 percent, 4.68 percent, and 4.00 percent, respectively) in your notes by making a small table with four columns labeled: Quarters Remaining, Inflation, Unemployment, and Fed Funds Rate.

Review the “rules” and functions of the simulation by clicking on “**YOUR JOB.**” Once you have familiarized yourself with the way the simulation works, you are ready to “GO.”

Start the game by clicking on the “**Go**” button. Once the first quarter is completed (fifteen quarters remaining), record all three rates. Using the “raise” and “cut” buttons, make adjustments to the fed funds rate. The information in the headline reflects changes in the levels of inflation and unemployment.

Work through the remaining fifteen quarters, pausing to review each headline and record the new values of inflation and unemployment.

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.

Good Luck!

Play the Chair the Fed Simulation

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