

October 2, 2009

Dear Teacher and Stock Market Game Participants:

Just when we thought we were rounding the corner towards economic recovery, the job numbers for the month of September were recently released and they're not pretty (not to mention the *Jon and Kate Plus 8* nightmare). While estimates were set at *only* 180,000 jobs lost, the job market trumped the estimate by ending the month with a loss of 263,000 jobs putting the unemployment rate at its highest level since 1983. Even though many economists, including the Federal Reserve, have said there are signs that the economy is growing once again, the jobs report cast doubt on the strength of any economic turnaround. But let's focus on the positive – it's Friday!

In other positive news, the Federal Reserve announced earlier this week that home buyers will get a reprieve as the central bank left its interest-rate target unchanged at zero to 0.25% and maintained its expectation that the federal-funds rate, or the rate banks charge each other for overnight loans, would remain low "for an extended period." The federal funds rate is used to set rates for a variety of consumer loans, including home equity lines and credit cards, as well as for many business loans. The lower the rate, the more the Fed hopes to spur economic activity. Unfortunately things are a bit different in this economic climate. Banks are still not too excited about lending money now – to anyone. They have become more concerned with people's inability to pay them back.

For your students who may be new to The Stock Market Game and investing in general, they may be unfamiliar with the role of the Federal Reserve Bank and why its policies have such a great impact on the overall economy and the individual investor. Let's start with the basics. The Federal Reserve System is the central bank of the United States and plays many roles in the economy. The most important is regulating the money supply. This includes the currency in circulation, the reserves held by banks, and the amount of money being deposited and re-deposited in bank accounts. The money supply is extremely important to individuals and businesses because the more money that's available, the easier and cheaper it is to borrow. The less money that's available, the more expensive borrowing becomes. The cost of borrowing, or the cost of credit, has a strong impact on whether the economy is able to grow or decline.

To keep the U.S. economy growing, the Fed focuses on achieving three goals: low inflation, high employment, and moderate and stable long-term interest rates. Ideally, these three elements should work together, but often things get more complicated. For instance, full employment may result in higher wages, which can increase inflation. High inflation affects prices, but interfering with inflation may result in an economic slowdown. Therefore, the role of the Fed is extremely important – ensuring neither growth nor decline gets out of hand.

For more information about the Federal Reserve Bank be sure to check out the following *In The News* issues: *The Mystery of Mr. G*, *The Fed's Test*, and *A Knight at the Fed*. All newsletters are located in the Teacher Support Center's *Publications* section and each of these issues does a great job explaining the Fed's role in influencing interest rates, spending, and stock prices.

Have a great weekend!