

NAME _____ DATE _____

Money in the Bank (1)

Web Questionnaire

Using the United States Mint Web site (www.usmint.gov), answer the following questions. The Frequently Asked Questions (FAQs) section is a good place to start your search.

1. What is "seigniorage"?
2. How much does it cost to make one of the newly minted quarters?
3. What was the actual seigniorage of a quarter in 2002?
4. How does this minting program affect the federal budget? Does it bring money into the budget or is it a "bill" that the government has to pay?
5. How are coins placed into circulation?
6. How is money retired from circulation? What is the typical age of a paper bill when it is taken out of circulation? The typical age of a coin?



Money in the Bank (2)

Web Questionnaire

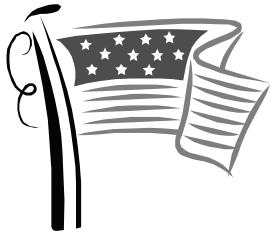
Using the Federal Reserve System's Web site (www.federalreserve.gov), answer the following questions:

7. What is the Federal Reserve System (the Fed) and what is its primary role?

8. What are the functions of the Fed?

9. Define the following terms:

- Monetary policy
- Money supply
- Open Market Operations
- Treasury Securities
- Primary Dealers
- Interest rate
- Gross Domestic Product (GDP)
- Inflation
- Recession



Money in the Bank (3)

Web Questionnaire

10. How many Federal Reserve Banks exist? Where are they located?

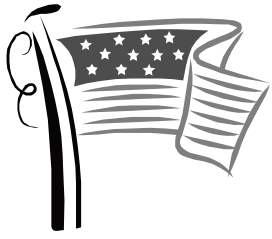
11. What are the responsibilities of the Federal Reserve Banks?

12. Does the Fed print money?

13. What is the purpose of the Board of Governors and who sits on this board?

14. What is the primary role of the Federal Open Market Committee?

15. How do the Federal Reserve Banks affect the increase of the money supply in our nation's economy?



Money in the Bank (4)

Web Questionnaire

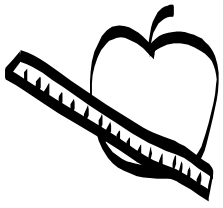
16. Describe what happens to interest rates if there is an excessive amount of money in circulation.

17. Describe what happens to interest rates if there is not enough money in circulation to meet the demands of society.

18. What does the Fed do in order to raise or lower interest rates?

Based on what you've learned, answer the following question:

19. When individuals pull the coins from the 50 State Quarters® Program out of circulation to add to personal collections, how might this affect our country's national debt?



Money in the Bank

Web Questionnaire—Key (1)

Using the United States Mint Web site (www.usmint.gov), answer the following questions:

1. What is “seigniorage”?

Seigniorage is a coin’s value on the open market less the actual cost to produce the coin.

2. How much does it cost to make one of the newly minted quarters?

In 2002, the cost to manufacture a quarter was about 8 cents.

3. What was the actual seigniorage of a quarter in 2002?

The cost to manufacture a quarter was about 8 cents and the purchasing power of a quarter is twenty-five cents, providing a seigniorage of about 17 cents per coin.

4. How does this minting program affect the federal budget? Does it bring money into the budget or is it a “bill” that the government has to pay?

The United States Mint generates a great deal of profit for the Department of the Treasury. Most of this revenue comes from seigniorage. The United States Mint also earns revenues through the sale of numismatic products such as coins, medals, and related products. These revenues often exceed \$1 billion and help to reduce the national debt.

5. How are coins placed in circulation?

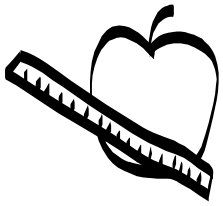
The United States Mint ships its coins to Federal Reserve Banks, which are responsible for putting coins (and paper money) into circulation and also for withdrawing them from circulation when they are worn out.

When a private bank needs coins for its customers, it purchases them from a Federal Reserve Bank. Banks have checking accounts at the Federal Reserve Banks, just as you do at your bank. To buy cash for you, your bank uses special checkbook money called a “reserve balance.”

The coins make their way back to the Federal Reserve Bank at some point because banks often accumulate more cash than they need for day-to-day transactions. Each bank deposits the excess cash into its checking account at a branch of the Federal Reserve Bank until its customers need it.

6. How is money retired from circulation? What is the typical age of a paper bill when it is taken out of circulation? The typical age of a coin?

Coins circulate from the Federal Reserve Bank to the private banks to you and back again until they are worn out—unfit for use. The Federal Reserve replaces those coins by ordering new ones from the United States Mint—and once those coins are minted, a new circulation cycle begins. A paper dollar lasts about 18 months in circulation. A circulating coin generally lasts 30 years or longer.



Money in the Bank

Web Questionnaire—Key (2)

Using the Federal Reserve System's Web site (www.federalreserve.gov/), answer the following questions:

7. What is the Federal Reserve System (the Fed) and what is its primary role?

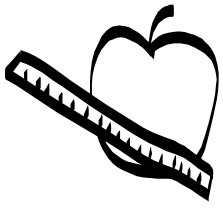
The Federal Reserve System is the central bank of the United States. It regulates and oversees the banking system as well as establishes the monetary policy of the U.S. Its goal is to keep the U.S. economy on a steady path towards low unemployment and steady growth.

8. What are the functions of the Fed?

The Federal Reserve's duties include conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices; promoting the stability of the financial system; providing banking services to depository institutions and to the federal government; and ensuring that consumers receive adequate information and fair treatment in their interactions with the banking system.

9. Define the following terms:

- **Monetary policy:** The actions made by the Federal Reserve to influence the availability and cost of money or credit in the U.S. economy in order to promote national economic goals.
- **Money supply:** The total amount of money available for transactions and investment.
- **Open Market Operations:** The practice of buying or selling government securities through an auction process in order to influence the volume of money and credit in our economy.
- **Treasury Securities:** Interest-bearing obligations of the U.S. government issued as a means of borrowing money to meet government expenditures not covered by tax revenues (including Treasury bills, Treasury notes, Treasury bonds, and savings bonds).
- **Primary Dealers:** Primary dealers are banks and securities brokerages that trade in U.S. Government securities with the Federal Reserve System.
- **Interest rate:** The percentage of additional money charged in the repayment of a loan, usually a percentage of the amount lent. Also, the percentage paid on a savings account.
- **Gross Domestic Product (GDP):** The total value of all the goods and services produced within a country's borders
- **Inflation:** A persistent increase in the overall price level, triggered when demand for goods is greater than the available supply or when unemployment is low and workers can command higher salaries.
- **Recession:** A significant decline in a nation's economic activity resulting from a decline in a nation's GDP. Recession usually results in increased unemployment, decreased consumer and business spending, and declining stock prices.



Money in the Bank

Web Questionnaire—Key (3)

10. How many Federal Reserve Banks exist? Where are they located?

There are twelve Federal Reserve Districts, each containing a primary Federal Reserve Bank. Many of these banks operate branch offices. The Federal Reserve Banks are located in Boston (MA), New York (NY), Philadelphia (PA), Cleveland (OH), Richmond (VA), Atlanta (GA), Chicago (IL), St. Louis (MO), Minneapolis (MN), Kansas City (MO), Dallas (TX), and San Francisco (CA).

11. What are the responsibilities of the Federal Reserve Banks?

The Federal Reserve Banks hold the cash reserves of depository institutions and make loans to them. They move currency and coin into and out of circulation and collect and process millions of checks each day. They provide checking accounts for the Treasury, issue and redeem government securities, and act in other ways as fiscal agent for the U.S. government. They supervise and examine member banks for safety and soundness. The Reserve Banks also participate in the Fed's primary responsibility: the setting of monetary policy.

12. Does the Fed print money?

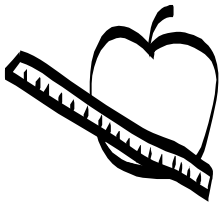
Although the Fed issues Federal Reserve notes (our nation's paper currency) and places them in circulation, the Fed does not print these notes or mint coins. The Bureau of Engraving and Printing (BEP) prints paper currency and the United States Mint produces our nation's coins.

13. What is the purpose of the Board of Governors and who sits on this board?

The Federal Reserve System's Board of Governors is comprised of seven members who are appointed by the President and confirmed by the Senate. The Board of Governors is based in Washington, DC, and works with the twelve regional Reserve Banks and advisory councils to conduct monetary policy, to supervise and regulate certain banking organizations, to operate many of the nation's payment systems, and to administer most of the nation's laws that protect consumer and credit transactions.

14. What is the primary role of the Federal Open Market Committee?

The Federal Open Market Committee consists of the members of the Board of Governors, the president of the New York Federal Reserve Bank, and (on a rotating basis) the presidents of four other Reserve Banks. This committee meets eight times a year to set guidelines for the purchase and sale of government securities in order to regulate the volume of money and credit in our nation's economy.



Money in the Bank

Web Questionnaire—Key (4)

15. How do the Federal Reserve Banks affect the increase of the money supply in our nation's economy?

The Fed does not control the supply of currency directly, but by raising or lowering the “federal funds” rate (a short term interest rate), the Fed affects this monetary supply indirectly—most often, by buying and selling Treasury securities.

As put by the Federal Reserve Bank of San Francisco:

Suppose the Fed wants the funds rate to fall. To do this, it buys government securities from a bank. The Fed then pays for the securities by increasing that bank's reserves. As a result, the bank now has more reserves than it wants. So the bank can lend these unwanted reserves to another bank in the federal funds market. Thus, the Fed's open market purchase increases the supply of reserves to the banking system, and the federal funds rate falls.

When the Fed wants the funds rate to rise, it does the reverse—that is, it sells government securities. The Fed receives payment in reserves from banks, which lowers the supply of reserves in the banking system, and the funds rate rises. (The Federal Reserve Bank of San Francisco, “What are the tools of U.S. monetary policy?” *U.S. Monetary Policy: An Introduction*. 2004. 27 July 2004 <<http://www.frbf.org/publications/federalreserve/monetary/tools.html>>.

16. Describe what happens to interest rates if there is an excessive amount of money in circulation.

If the Federal Reserve releases too much money to the banking system, the interest rate will likely decrease since there is more money available for people to borrow.

17. Describe what happens to interest rates if there is not enough money in circulation to meet the demands of society.

If the Federal Reserve releases too little money into the banking system, the interest rate will likely rise since there is less money available for people to borrow.

18. How does the Fed affect the raising or lowering of interest rates?

The Federal Reserve buys and sells Treasury Securities in order to add or remove money from the banking system. This will effect the raising or lowering of interest rates.

Based on what you've learned, answer the following question:

19. When individuals pull the coins from the 50 State Quarters® Program out of circulation to add to personal collections, how might this affect our country's national debt?

As these coins are pulled out of circulation, the demand for new currency rises. As the demand rises, the United States Mint produces greater quantities, creating more revenue (from seignorage), which is used to help pay off the nation's debt.



Living Model Rubric

GROUP MEMBERS _____

DATE _____

CATEGORY	CRITERIA				POINTS
	4	3	2	1	
Comprehension	The team clearly understood the topic in depth and presented their information in a convincing manner. The team could respond accurately to all questions asked.	The team clearly understood the topic and presented their information with ease. The team could respond accurately to most of the questions that were asked.	The team seemed to understand the main points of the topic and presented those with ease. The team could respond accurately to some of the questions asked.	The team did not show an adequate understanding of the topic. The team could not respond accurately to the questions asked.	
Accuracy	The team created a well-organized living model that clearly articulates the responsibilities and protocol of the Fed.	The team created a mostly organized living model that articulates the responsibilities and protocol of the Fed.	The team created a semi-organized living model that somewhat articulates the responsibilities and protocol of the Fed.	The team created a disorganized living model that does not articulate the responsibilities and protocol of the Fed.	
Participation	All group members participated and demonstrated equal comprehension of the diagram and living model.	Most group members participated and demonstrated comprehension of the diagram and living model.	Few group members participated and demonstrated comprehension of the diagram and living model.	One group member participated and demonstrated comprehension of the diagram and living model.	
Total Score					_____/12

Teacher's Comments:
