Passport to Globalization

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Lesson Plan of the Year Contest, 2009

Honorable Mention

LESSON DESCRIPTION

In this hands-on lesson, students travel the globe and explore the Federal Reserve's use of easy and tight monetary policy to address domestic economic problems. They investigate how monetary policy can affect people differently in the foreign exchange market and how this impact, in turn, affects our nation's gross domestic policy (GDP) and standards of living in the international marketplace. Students complete flow charts by working through a series of sequential events that, all else being equal, demonstrate how monetary policy affects various parties and the economy in general. When students complete the activities in this lesson, they receive their "passport" to understanding how Federal Reserve Board policies can affect the dynamics of international trade and globalization. *(Before teaching this lesson, see the note to teachers on page 4 concerning exchange rates)*

BACKGROUND INFORMATION

Prior to this lesson, students should already have a basic understanding of the structure, powers, and responsibilities of the Federal Reserve (Fed) and how the agency uses its monetary policy tools to conduct easy and tight monetary policy to help stabilize an economy that is facing problems such as recession, unemployment, slow growth in gross domestic product (GDP), depression, and inflation. Students should also be familiar with GDP and how an increase in productivity can increase per capita income and influence a nation's standard of living.

GRADE LEVEL

Sixteen- to eighteen-year-old students

CONCEPTS

- The Federal Reserve
- Monetary Policy
- Weak Dollar, Depreciated Dollar
- Strong Dollar, Appreciated Dollar
- Foreign Exchange Market
- Net Exports
- Standard of Living
- Capital Flight
- Capital Inflow

NATIONAL CONTENT STANDARDS IN ECONOMICS

Standard 5: Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

- ***Benchmark 4 for 8th grade:*** Imports are foreign goods and services purchased from sellers in other nations.
- ***Benchmark 5 for 8th grade:*** Exports are domestic goods and services sold to buyers in other nations.

Standard 12: Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.

- ***Benchmark 7 for 12th grade:*** Higher interest rates reduce business investment spending and consumer spending on housing, cars, and other major purchases. Policies that raise interest rates can be used to reduce these kinds of spending, while policies that decrease interest rates can be used to increase these kinds of spending.

Standard 20: Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

- ***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.

Alabama Course of Study Correlation: Social Studies. Economics, Bulletin 2004, No. 18

- ***Objective 9:*** Describe economic stabilization policies of the United States.
- ***Objective 11:*** Explain the past and present impact of the Federal Reserve Bank on the economy of the United States.
- ***Objective 12:*** Explain basic elements of international trade.

OBJECTIVES

Students will be able to

- Identify the impact in the international marketplace when the Fed seeks to correct the problems associated with (1) recession, depression, unemployment, and slow growth in GDP growth and (2) inflation.
- Identify a sequential relationship between the use of an easy monetary policy and a decrease in interest rates.
- Identify a sequential relationship between the use of a tight monetary policy and an increase in interest rates.
- Identify a sequential relationship between the use of an easy monetary policy and a depreciated U.S. dollar.
- Identify a sequential relationship between the use of a tight money policy and an appreciated U.S. dollar.
- Identify groups of persons in the international marketplace who might benefit from an appreciated and depreciated U.S. dollar.
- Identify how the Fed's use of monetary policy can lead to capital flight and capital inflow.
- Explain how monetary policy can affect the nation's imports and exports.
- Explain how an easy monetary or tight monetary policy can affect a nation's standard of living.

TIME REQUIRED

Two to three 50-minute class periods

MATERIALS

- Comic book: *The Story of Foreign Trade and Exchange*, available from the Federal Reserve Bank of New York.

- Comic book: *The Story of Monetary Policy*, available from the Federal Reserve Bank of New York.

- *Inside the Vault*, Spring 2008. *Crossing Borders: The Globalization Debate.* Online publication produced by the Federal Reserve Bank of St. Louis.

- Web site: http://www.oanda.com. A site that offers currency-exchange tools and currency conversion.

- Optional: Student access to computers.

- Visuals
  - *Visual 1: What You Will Learn from this Lesson?*
  - *Visual 2: Key Economic Terms*
  - *Visual 3: The Value of the Dollar: Weak or Strong?* (optional—same as *Activity 1*)

- Activities
  - *Activity 1—The Value of the Dollar: Weak or Strong*? (One copy per student)
  - *Activity 2—Exchange Rate Activity Sheet* (one copy per student)
  - *Activity 3—Trading Partner Cards* (one copy per student)
  - *Activity 4—Economic Sequencing Cards* (one copy per student)
  - *Activity 5—Economic Situation Chart 1* and *Economic Situation Chart 2* (two pages, one copy of each per student)
  - *Activity 6—Passport to Globalization Cards* (cut and distribute two cards for each student)
  - Glue, scissors, and five colored pencils (green, gold, red, blue, and gray) for each student

Teacher Resources:

- *Appendix A—Exchange Rate Activity Sheet* (answers)
- *Appendix B—Economic Situation Chart 1* and *Economic Situation Chart 2* (two pages, answers)

Special note to teachers: The answers to the *Exchange Rate Activity Sheet* and *Economic Situation Charts 1* and *2* are based on the currency exchange rates at the time of writing, January 2009. The dynamics of the exchange rate market are such that the value of the foreign currency to the U.S. dollar may change. As of January 2009, the U.S. dollar was strong against Mexico's peso, China's yuan, Russia's rouble (or ruble), Japan's yen, and India's rupee. The U.S. dollar was weak against the euro, the currency of various European countries including Italy, France, Germany, and the Republic of Ireland, among others. (Membership in the European Union and the Euro zone can change from time to time as more countries are added.) The U.S. dollar was also weak against the British pound sterling, which is the official currency of England, Wales, Scotland, and Northern Ireland. At the same time, the U.S. dollar was almost equal to the Swiss franc and the Canadian dollar.

PROCEDURE

Part 1

1. Display *Visual 1—What You Will Learn from this Lesson.* Review the lesson objectives with the students.

2. Display *Visual 2—Key Economic Terms.* Review these terms with the students before beginning the lesson.

3. Distribute the comic book *The Story of Foreign Trade and Exchange*.

4. Direct students to read pages 2–6 and end the reading at panel 1 on page 6.

5. Ask students the questions posed on page 2: Why do you have the opportunity to buy and use so many foreign products? (*Trade between nations is the reason.)* What did Adam Smith believe determined a nation's wealth? (*He believed a nation's wealth ultimately was determined by its holdings of assets, such as household items that consumers desired.)* Identify the economists associated with the trade philosophy of absolute advantage (*Adam Smith*) and comparative advantage (*David Ricardo*). Detail the reason cited by Ricardo on why nations should trade. (*If two countries have different resources and skills, they will have different relative abilities to produce different goods. Both countries will be better off by specializing in what they produce most efficiently and trading what they don't want domestically.)*

6. Distribute copies of *Inside the Vault: Crossing the Borders: The Globalization Debate.*

7. Lead the students in a discussion that answers the three questions provided at the end of the article.
   - What are some historical examples of globalization? (*The trade routes developed during the Roman Empire, as well as those pioneered by Marco Polo or ocean voyagers such as Columbus and Magellan.)*
   - Explain how globalization may increase the demand for higher-skilled workers and decrease the demand for lower-skilled workers in the United States. (*Increased competition spurs domestic firms to invest in equipment and software embodied with the latest technology. Moving less-skilled labor to low-wage countries increases the relative demand for higher-skilled, higher-productivity labor.)*
   - What are some arguments for and some arguments against free trade? (*Pro free-trade arguments include the following: 1. trade increases per capita income for nations that trade; 2. citizens receive more product choices at lower prices; and 3. increased productivity of a nation increases the standard of living of its citizens. Arguments against free-trade include the following: 1. an increase in unemployment for persons and firms that cannot compete in the global marketplace often because less-*

developed nations have lower labor costs and 2. there is the existence of an inequality gap between low-skilled and high-skilled workers that results in low-income and high-income disparities.)

Part 2. The Fed's Impact on International Trade

8. Distribute the comic book *The Story of Monetary Policy.*

9. Direct students to read pages 21 (begin at the last panel) through 23.

10. Ask students in what two ways can decisions of the Fed affect international trade? *(Fed decisions affect exchange rates by making the U.S. dollar weaker or stronger compared to foreign currency. Fed decisions also affect U. S. interest rates, which, in turn, affect whether foreign investors deposit money in or withdraw money from U.S. banks.)*

Part 3. How Trade Is Conducted

11. Direct students to return to the comic book *The Story of Foreign Trade and Exchange* and read pages 13–17 (ending on panel 2 of page 17).

12. Ask students to define "exchange rate." (*An exchange rate is the rate at which one currency is traded for another.)* Ask students to describe how an exchange rate is listed. (*An exchange rate is usually expressed in terms of how many units of a foreign currency one U.S. dollar can buy.)* Ask students for the abbreviation often used for exchange rate *(FX*).

13. Distribute and review *Activity 1: The Value of the Dollar: Weak or Strong?* (This may be shown as a visual—*Visual 3: The Value of the Dollar: Weak or Strong?* either in addition to or instead of the handout.) Tell students that they will apply these concepts when completing several activities.

14. Distribute the following to each student: scissors, glue, and five colored pencils (green, gold, gray, blue, and red).

15. Distribute *Activity 2: Exchange Rate Activity Sheet* and direct students to follow the directions provided on the activity sheet. These directions include the following:
    a. Access the currency site http://www.oanda.com. (If students do not have access to individual computers, access the Web site and provide students with the exchange rate data.) Select **Currency Exchange Tools** and **FX Converter**.
    b. For Column 1, determine what the conversion rate is for one U.S. dollar to the foreign currency listed below.
    c. For Column 2, determine what country uses that currency as its medium of exchange.
    d. Choose one of the final three columns to correctly describe the exchange relationship between the U.S. dollar and the FX. Is the U.S. dollar considered strong, weak, or almost equal to the foreign currency? Color the column as indicated.

16. Review answers with the students using teacher resource *Appendix A: Exchange Rate Activity Sheet answers.*

Special note to teachers: Remember that the answers to the *Exchange Rate Activity Sheet* and *Economic Situation Charts 1* and *2* are based on the currency exchange rates at the time of writing, January 2009.

Part 4. The Fed Decides: Trade and Consequences

17. Explain to students that they will apply the information collected on the *Exchange Rate Activity Sheet* to the next activity using *Trading Partner Cards*.

18. Distribute *Activity 4: Trading Partner Cards.*

19. Direct students to read each trading scenario and color each one either green, gold, or gray depending on whether the U.S. dollar is strong, weak, or almost the same against the foreign currency.

20. Direct students to color the Capital Inflow card blue and the Capital Flight card red. Have students cut out each of these cards and stack them nearby for use in step 30.

21. Distribute *Activity 5: Economic Sequencing Cards.* Direct students to cut out the cards. (The cards have been placed on the sheets randomly by design but direct the students to organize the cards by matching the numbers: 1 with 1, 2 with 2, etc. Stack them nearby for use in step 24.

22. Distribute *Activity 6: Economic Situation Chart 1* (Recession, Unemployment, Slow Growth in GDP, and Depression) and *Economic Situation Chart 2* (Inflation).

23. Direct students to place these charts on their desks, side by side.

24. Direct students to begin with correctly placing their economic sequence cards numbered "1" in the box that matches the correct economic situation. For example, students should place the card "1. Fed conducts easy money policy" on the *Economics Situation Chart for Recession, Unemployment, Slow Growth in the GDP, and Depression* and the card "1. Fed conducts tight money policy" on the *Economics Situation Chart for Inflation*.

25. Direct students to complete numbers 1–12 in the same fashion, making good economic decisions along the way.

26. Direct students to take their green and gold *Trading Partner Cards* and place each on the *Economic Situation Chart* according to whether the trading partner benefits from an easy money policy (creates a weak dollar) or a tight money policy (creates a strong dollar). Students can place their five trading partner cards on any of the spaces; there is no sequencing of one trading decision to another.

27. Direct students to observe that the placement of these trading partner cards on Chart 1 *between* economics sequencing number 6: "businesses sell more exports which are more affordable to foreign buyers" and number 7: "exports increase" is important in their understanding of the consequences of the Fed's decisions on international trade. Likewise, placing the trading partner cards on Chart 2 *between* number 6: "consumers can afford to buy more imports" and number 7: "imports increase" is important in their understanding of the consequences of the Fed's decisions on international trade.

28. Direct students to observe that a *gold* card represents transactions involving a U.S. business or person *selling* (exporting*)* a product abroad and a *green* card represents transactions involving a U.S. business or person *buying* (importing) a product.

29. Direct students to take their two gray cards and place them on *either* chart with the space labeled "Trading Partner with Equal Currency Exchange Rates."

30. Direct students to take their *red* card (Capital Flight) and *blue* card (Capital Inflow) and correctly place the card in the space located between numbers 3 and 4. Students may need to revisit *Activity 1: The Value of the Dollar: Weak or Strong?* Students, for example, should show that Capital Flight (red) is a consequence of the Fed's easy money policy and that Capital Inflow (blue) is a consequence of the Fed's tight money policy.

31. Review the answers with the students using *Appendices B* and *C: Economic Situation Charts 1* and *2—answers.* To verify that the student's work is accurate, check that **Chart 1 contains gold, red, and gray cards and Chart 2 contains green, blue, and gray cards.**

32. Call on students to read aloud the sequence of events for both Chart 1 and Chart 2 including capital flight and capital inflow cards and the trading partner cards. Encourage students to make adjustments in the sequence until all cards are correctly sequenced. Encourage students to use linkage terms in their description of the events developed in Chart 1 and Chart 2.
    a. Chart 1: When recession, unemployment, slow growth in GDP, depression exist in the United States, "The Fed conducts easy money policy…*which leads to*…more U.S. dollar in circulation…*which creates* a weaker, depreciated U.S. dollar…*which leads to* our U.S. dollar being less attractive as foreign investors with-draw their money from U.S. banks seeking a better return on their money elsewhere. *Because* the U.S. dollar is weak, foreign currency for U.S. buyers is expensive…*which* allows our U.S. exports to become affordable to foreign buyers…*which results* in foreign buyers being able to afford to buy more of our products that U.S. businesses are exporting. *For example,* buyers such as "Sailing Away" sold spare parts in England, U.S. auto-makers sold cars in France, U.S. food producers sold spices to European business "Marco Polo, Inc.," U.S. ski companies sold equipment to "Snowy Alps, Inc." in Italy, and film producers sold movies in Germany. *The result* of these increased sales means that our exports have increased. *This also means* that our weak dollar does not provide U.S. buyers with the ability to afford to purchase imports. *This results* in a decrease in our imports. *This leads to* an increase in net exports *because* our exports exceed our imports. *Because* net exports are a component of GDP, our aggregate demand has risen. *The result* of this increase in foreign trade is that the U.S. enjoys an increase in our standard of living. So, too, buyers from other nations who purchase our exports benefit from having greater product choices at prices less likely to suffer from high, inflationary prices. Thus, when the standard of living increases for any nation, trade worldwide benefits.
    b. Chart 2: When inflation exists in the United States, "The Fed conducts tight money policy…*which leads to*…fewer U.S. dollars in circulation…*which creates* a strong, appreciated U.S. dollar…*which leads to* our U.S. dollar being more attractive as foreign investors place their money in U.S. banks seeking a better return on their money through higher interest rates earned on the deposits. *Because* the USD is strong, foreign currency for U.S. buyers is a bargain…*which results* in our U.S. exports becoming too expensive for foreign buyers…*which results* in our consumers being able to afford to buy more imports. For example, buyers such as U.S. bakeries can more easily afford to buy vanilla from Mexico's vanilla producer "Al Capulco," U.S. toy retailer "Emma Porter" can buy Chinese toys from "Mao Jones, Inc." at a bargain, U.S. casinos can buy gambling machines more cheaply from "Cha Ching, Inc.," of Japan, U.S. designers can reason-ably buy textiles from manufacturer "Jay Carda" in India, and Fed employee "Monty Terry" can buy more goods while traveling in Russia. *The result* of these increased purchases is an increase in imports. *This also means* that our strong dollar does not provide foreign buyers with the same ability to afford to purchase our exports. *This results* in a decrease in our exports. *This leads to* a decrease in net exports because our imports exceed our exports. *Because* net exports are a component of GDP, our aggregate demand has fallen. *The overall result* of this increase in foreign trade is that our partners enjoy an increase in their standard of living. So, too, buyers from our nation who purchase imports benefit from having greater product choices at prices less likely to suffer from high, inflationary prices. Thus, when the standard of living increases for any nation, trade worldwide benefits.

33. After the sequence has been verified as correct, students should glue the cards in place.

34. Congratulate the students for completing the charts and award them their Passport to Globalization. Distribute two cards to each student and direct the students to glue their Passports onto both Chart 1 and Chart 2.

35. Teachers can collect these charts along with the Exchange Rate Activity Sheet and check for accuracy before returning them to the students for use as a study guide for the upcoming test on international economics.

CLOSURE

Review the main points of the lesson

1. What impact in the international marketplace occurs when the Fed seeks to correct the problems associated with (1) recession, depression, unemployment, and slow growth in GDP and (2) inflation? *(The sequence of effects is detailed in Procedure step 32.)*

2. What is the sequential relationship between the use of an easy monetary policy and the decrease in interest rates? *(When the Fed uses its monetary policy tools to increase the supply of money in the economy, it does so to make borrowing money less expensive for consumers and businesses. When there is more money in banks, banks charge borrowers less interest. Thus, it is said to be "easier" to borrow, spend, and invest in the economy. The Fed initiates easy money policy to promote growth and help end recession, depression, and unemployment.)*

3. What is the sequential relationship between the use of a tight monetary policy and the increase in interest rates? *(When the Fed uses its monetary policy tools to decrease the supply of money in the economy, it does so to make borrowing money more expensive for consumers and businesses. When there is less money in banks, banks charge borrowers more interest. Thus, it is said to be "tighter" to borrow, spend, and invest in the economy. The Fed initiates tight monetary policy to help curb inflation.)*

4. What is the sequential relationship between the use of easy money and a depreciated U.S. dollar? *(When the Fed initiates easy monetary policy, more money is in circulation. The greater the supply or quantity of money circulating in the economy, the less valuable the money is. Hence, the money has depreciated.)*

5. What is the sequential relationship between the use of a tight money policy and an appreciated U.S. dollar? *(When the Fed initiates a tight money policy, less money is in circulation. Because there are fewer dollars in supply, the money becomes more valuable. Hence, the money has appreciated.)*

6. What groups of persons in the international marketplace benefit from an appreciated and depreciated U.S. dollar? *(Groups of persons who benefit from an appreciated, stronger dollar include those who buy imports and those who place money in banks to receive interest rates on their investment. Groups of persons who benefit from a depreciated, weaker dollar include those who sell products abroad.)*

7. How does the Fed's use of monetary policy lead to capital flight and capital inflow? *(When the Fed conducts easy money policy to combat recession and promote growth, the dollar depreciates and becomes weaker against the foreign currency. U.S. banks charge less interest to borrowers and pay less interest to depositors. Financial capital is withdrawn from U.S. banks by foreign investors as they seek higher interest rates on their deposits from banks not in the United States. The "trade" is money for money, and investors avoid a weak, depreciated dollar. Hence, the U.S. economy experiences capital flight. When the Fed conducts tight money policy to combat inflation, the dollar appreciates and becomes stronger against the foreign currency. U.S. banks charge more interest to borrower and pay more interest to depositors. Financial capital comes into the U.S. banks from*

foreign investors as they seek higher interest rates on their deposits. The "trade" is money for money, and investors are attracted to a stronger, appreciated dollar. Hence, the U.S. economy experiences capital inflow.)

8. *W*hat are the effects of monetary policy on the imports and exports of the nation? *(Imports increase and exports decrease when the U.S. dollar is relatively stronger. This leads to a negative net export effect. This leads to a decrease in aggregate demand and a decrease in GDP output. Imports decrease and exports increase when the U.S. dollar is relatively weaker. This leads to a positive net export effect. This leads to an increase in aggregate demand and an increase in GDP output.*

ASSESSMENT

1. *Activity 2: Exchange Rate Activity Sheet 1* and *Activity 5: Economic Situation Chart 1 and Chart 2* may be used as assessments for this lesson. These three activities serve to evaluate and assess the student's understanding of the economic concepts.

2. *Writing Assignment:* Explain "capital inflow" in your own words. What type of monetary policy might contribute to capital inflow? Describe some possible economic consequences of capital inflow to the U. S. economy.

SUMMARY OF PREVIOUS CLASSROOM USE

Students always get excited when they walk into my room and see colored pencils, scissors, and glue because they know they are about to have fun in economics through hands-on learning. Because my students in the past have always struggled with international economics, I wanted to create a lesson plan that enabled the students to see the domino-like sequencing of economic decisions and the effects of those decisions on both the national and international marketplace.

Three classes in the fall completed the lesson in its first-draft form and offered invaluable suggestions on how to improve the clarity of instruction so students in the future could understand the concepts more fully. Students said their favorite parts of the lesson included seeing how much a dollar would buy in different foreign currencies, the funny exchange-rate trading partner cards, and the completed economic situation charts. They said that the charts were the best study guides they had ever had because the students themselves were responsible for sequencing the economic events. Seeing the sequencing come to life made learning this very difficult material less daunting, enabling them to meet the challenges of understanding how the Fed's decisions on national policy affect international trade worldwide.

An activity that involves exchanges rates can be tricky because the dynamics of the exchange rate market are such that the value of the foreign currency to the U.S. dollar may change and therefore the answer keys to the lessons may need to be adapted over time. Nevertheless, the strength of the U.S. dollar to the peso, rouble (ruble), rupee, yen, and yuan has been a stable characteristic as is true concerning the weakness of the U.S. dollar to the euro and pound, and the almost equal exchange rate of the U.S. dollar to the Canadian dollar and the Swiss franc.

VISUAL 1

What You Will Learn from this Lesson

After this lesson you will be able to

- Explain the impact in the international marketplace when the Fed seeks to correct the problems associated with (1) recession, depression, unemployment, and slow growth in GDP and (2) inflation.
- Explain the sequential relationship between the use of an easy money policy and the decrease in interest rates.
- Explain the sequential relationship between the use of a tight money policy and the increase in interest rates.
- Explain the sequential relationship between the use of an easy money and a depreciated U.S. dollar.
- Explain the sequential relationship between the use of a tight money policy and an appreciated U.S. dollar.
- Identify the groups of persons in the international market who benefit from an appreciated and depreciated U.S. dollar.
- Explain how the Fed's use of monetary policy can lead to capital flight and capital inflow.
- Explain the effect of monetary policy on the imports and exports of the nation.
- Explain the consequences of an easy money or tight money policy on a nation's standard of living.

VISUAL 2

Key Economic Terms

- *Imports* are goods that are produced by foreign suppliers and sold to domestic consumers. Imports come "in."
- *Exports* are goods that are sold to foreign buyers by domestic producers. Exports go "out."
- *Net exports* are exports minus imports. If a nation exports more than it imports, the nation has a positive net export. If a nation imports more than it exports, the nation has a trade deficit. A positive net export increases GDP output for the nation. A negative net export decreases GDP output for a nation.
- *Net export (Xn)* is a component of aggregate demand. A positive net export increases aggregate demand, and a negative net export decreases aggregate demand.
- *Gross domestic product (GDP)* is the total market value of all final goods and services produced annually within the boundaries of a country.
- *Standard of living* is an economy's level of economic prosperity; it is best measured by the value of goods and services produced per person. This is referred to as *GDP/capita.* "A country's standard of living depends on its ability to produce goods and services. Countries whose workers produce a large quantity of goods and services per unit of time enjoy a high standard of living. Similarly, as a nation's productivity grows, so does its average income." (N. Gregory Mankiw, *Principles of Economics*. 3rd edition. Thomson South Western.)

VISUAL 3

Activity 1

The Value of the Dollar: Weak or Strong?

Weak Dollar	Strong Dollar
The USD is WEAK if more dollars are needed to buy the foreign currency.	The USD is STRONG if fewer dollars are needed to buy the foreign currency.
The USD is WEAK if the owner of a USD receives less of the foreign currency in exchange for one dollar	The USD is STRONG if the owner of a USD receives more of the foreign currency in exchange for one dollar.
This is caused by the Fed's easy money policy to cure a slow economy.	This is caused by the Fed's tight money policy to cure an economy that is suffering from inflation.
US consumers however have to use more dollars to buy foreign goods. Result: exports exceed imports, which results in a positive net export. This means GDP has increased.	US consumers do not have to use as many dollars to buy foreign goods. Result: exports decline and imports rise, which results in a negative net export. This means GDP has decreased.
Dollars are "easier" to come by and are therefore "depreciated."	Dollars are "tighter" to come by and are therefore "appreciated."
Foreign investors seeking to earn high interest rates on their investments will withdraw their money from U.S. banks and seek higher rates in other foreign banks. This is called capital flight.	Foreign investors seeking to earn high interest rates on their investments will deposit their money in U.S. banks. This is called capital inflow.
US goods do not cost much for foreign buyers.	U.S. goods cost much more for foreign buyers.
This is a bad time to travel abroad.	This is a great time to travel abroad.

Activity 1

The Value of the Dollar: Weak or Strong?

Weak Dollar	Strong Dollar
The USD is WEAK if more dollars are needed to buy the foreign currency.	The USD is STRONG if fewer dollars are needed to buy the foreign currency.
The USD is WEAK if the owner of a USD receives less of the foreign currency in exchange for one dollar	The USD is STRONG if the owner of a USD receives more of the foreign currency in exchange for one dollar.
This is caused by the Fed's easy money policy to cure a slow economy.	This is caused by the Fed's tight money policy to cure an economy that is suffering from inflation.
US consumers however have to use more dollars to buy foreign goods. Result: exports exceed imports, which results in a positive net export. This means GDP has increased.	US consumers do not have to use as many dollars to buy foreign goods. Result: exports decline and imports rise, which results in a negative net export. This means GDP has decreased.
Dollars are "easier" to come by and are therefore "depreciated."	Dollars are "tighter" to come by and are therefore "appreciated."
Foreign investors seeking to earn high interest rates on their investments will withdraw their money from U.S. banks and seek higher rates in other foreign banks. This is called capital flight.	Foreign investors seeking to earn high interest rates on their investments will deposit their money in U.S. banks. This is called capital inflow.
US goods do not cost much for foreign buyers.	U.S. goods cost much more for foreign buyers.
This is a bad time to travel abroad.	This is a great time to travel abroad.

Activity 2

Exchange Rate Activity Sheet

1. Access the currency site http://www.oanda.com. Select **Currency Exchange Tools** and **FX Converter**.
2. For Column 1, determine what the conversion rate is for one USD (U.S. Dollar) to the foreign currency listed below.
3. For Column 2, determine what country uses that currency as its medium of exchange.
4. Identify the exchange relationship between the USD and the foreign currency. Is the USD considered strong (green), weak (gold), or almost equal (brown) to the foreign currency? Color the column as indicated.

Column 1	Column 2 Country	Strong Color: Green	Weak Color: Gold	Almost Equal Color: Gray
$1.00 (one USD) =________________ Euro				
$1.00 (one USD) = ______________ Canadian Dollar				
$1.00 (one USD) = ________________Peso				
$1.00 (one USD) = ________________Pound				
$1.00 (one USD) = ________________Rouble				
$1.00 (one USD) = ________________Rupee				
$1.00 (one USD) = ________________Swiss Franc				
$1.00 (one USD) = ________________Yen				
$1.00 (one USD) = ________________Yuan				

Activity 3

Trading Partner Cards

U.S. Bakeries want to purchase vanilla from Mexican business owner Al Capulco

Hollywood producers are selling King Kong and Superman in German theaters

U.S. Companies are selling ski equipment to ski lift company Snowy Alps, Inc located in Northern Italy

Capital Inflow Investment Company from Saudi Arabia is placing their money in U.S. banks to earn high interest

U.S. wholesale dealer Emma Porter wants to buy a warehouse full of toys from Chinese manufacturer Mao Jones, Inc.

U.S. Pancake Houses serve maple syrup produced in Ontario by Mountie, Inc. of Canada

Capital Flight Securities, Inc. from Singapore withdraws their money in U.S. banks to earn high interest rates elsewhere

U.S. boat company, Sailing Away, Inc., will sell spare parts to British company L.B. Sterling, Inc.

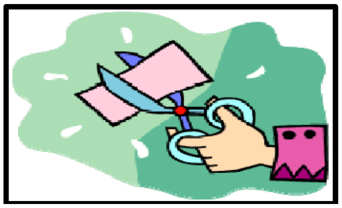
U.S. automakers are touring France selling Chevys and Fords

U.S. food producers want to sell spices to the European spice company Marco Polo

U.S. fashion designers want to purchase fine threads from India's textile manufacturer Jay Carda

U.S. casinos want to buy electronic gambling machines from the Japanese company Cha Ching, Inc.

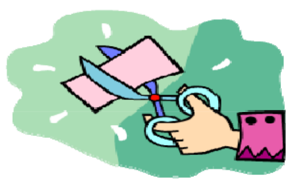
Monty Terry is a FED employee who likes to travel abroad spending money in St.Petersburg, Russia



U.S. consumers enjoy eating chocolates from Swiss company Sweet Tooth Inc.

Activity 4

Economic Sequencing Cards

1. Fed conducts tight money policy	3. Strong USD (Dollar has appreciated)	8. Exports decrease	4. Foreign currency for U.S. buyers is expensive	9. Net Exports Increase (exports exceed imports)
5. Our U.S. exports become to expensive to foreign buyers	2. More USD (United States dollars) circulate	6. Business sell more exports which are more affordable to foreign buyers	5. Our U.S. exports become more affordable to foreign buyers	4. Foreign Currency for U.S. buyers is a bargain
1. Fed conducts easy money policy	7. Exports Increase	3. Weak USD (Dollar has depreciated)	11. Standard of living increases for our trading partners as U.S. buys more foreign products	6. Consumers can afford to buy more imports
8. Imports Decrease	11. Standard of living increases for U.S. as foreign countries buy more U.S. products)	12. Standard of Living increases for U.S. buyers with product choice & and lower prices	2. Less USD (United States Dollars) circulate	10. GDP increases (Positive net exports)
12. Standard of Living increases for foreign buyers with product choice & and lower prices	7. Imports Increase	9. Net Exports Decrease (Exports are less than imports)	10. GDP decreases (Negative net exports)	

Activity 5

Economic Situation Chart 1: Recession, Unemployment, Slow Growth in GDP, Depression

Activity 5, page 2

Economic Situation Chart 2: Inflation

Activity 6

Passport to Globalization Cards

Appendix A
Answers: Exchange Rate Activity Sheet

1. Access the currency site http://www.oanda.com. Select Currency Exchange Tools and FX Converter.
2. For Column 1, determine what the conversion rate is for one USD (U.S. Dollar) to the foreign currency listed below.
3. For Column 2, determine what country uses that currency as its medium of exchange.
4. Identify the exchange relationship between the USD and the Foreign Currency. Is the USD considered strong (green), weak (gold), or almost equal (brown) to the foreign currency? Color the column as indicated.

Column 1	Column 2 Country	Strong Color: Green	Weak Color: Gold	Almost Equal Color: Gray
$1.00 (one USD) =________________ Euro	European Union (Italy, France, Germany, etc.)		X	
$1.00 (one USD) = ________________Canadian Dollar	Canada			X
$1.00 (one USD) = ________________Peso	Mexico	X		
$1.00 (one USD) = ________________Pound	England, Wales, Scotland, Northern Ireland (Ireland uses the euro)		X	
$1.00 (one USD) = ________________Rouble	Russia	X		
$1.00 (one USD) = ________________Rupee	India	X		
$1.00 (one USD) = ________________Swiss Franc	Switzerland			X
$1.00 (one USD) = ________________Yen	Japan	X		
$1.00 (one USD) = ________________Yuan	China	X		

Appendix B

Answer Key for Economic Situation Chart 1: Recession, Unemployment, Slow Growth in GDP, and Depression

1. FED conducts easy money policy →

2. More USD circulate →

3. Weak USD (dollar has depreciated) →

Capital Flight Securities, Inc. from Singapore withdraws their money in U.S. banks to earn high interest rates elsewhere →

4. Foreign Currency for US buyers in expensive →

5. Our U.S. exports become more affordable to foreign buyers →

6. Businesses sell more exports which are more affordable to foreign buyers →

U.S. boat company, Sailing Away, Inc., will sell spare parts to British company L.B. Sterling, Inc. →

U.S. automakers are touring France selling Chevys and Fords →

U.S. food producers want to sell spices to the European spice company Marco Polo →

U.S. Companies are selling ski equipment to ski lift company Snowy Alps, Inc located in Northern Italy →

Hollywood producers are selling King Kong and Superman in German theaters →

U.S. consumers enjoy eating chocolates from Swiss company Sweet Tooth Inc. →

7. Exports Increase →

8. Imports Decrease →

9. Net Exports Increase (Exports exceed imports) →

10. GDP increases (Positive net exports) →

11. Standard of Living increases for U.S. as foreign countries buy more U.S. products →

12. Standard of Living increases for foreign buyers with product choice & and lower prices →

Appendix C

Answer Key for Economic Situation Chart 2: Inflation

1. FED conducts tight money policy →

2. Less USD (U.S. Dollars) circulate →

3. Strong USD (dollar has appreciated) →

Capital Inflow Investment Company from Saudi Arabia is placing their money in U.S. banks to earn high interest →

4. Foreign Currency for US buyers is a bargain →

5. Our U.S. exports become too expensive to foreign buyers →

6. Consumers can afford to buy more imports →

U.S. Bakeries want to purchase vanilla from Mexican business owner Al Capulco →

U.S. wholesale dealer Emma Porter wants to buy a warehouse full of toys from Chinese manufacturer Mao Jones, Inc. →

U.S. casinos want to buy electronic gambling machines from the Japanese company Cha Ching, Inc. →

U.S. fashion designers want to purchase fine threads from India's textile manufacturer Jay Carda →

Monty Terry is a FED employee who likes to travel abroad spending money in St.Petersburg, Russia →

U.S. Pancake Houses serve maple syrup produced in Ontario by Mountie, Inc. of Canada →

7. Imports Increase →

8. Exports Decrease →

9. Net Exports Decrease (Exports are less than imports) →

10. GDP decreases (Negative net exports) →

11. Standard of Living increases for our trading partners as the U.S. buys more foreign products →

12. Standard of Living increases for U.S. buyers with product choice & and lower prices →