

TEACHING TIPS

from the Federal Reserve Bank of Kansas City



BASED ON THE
SPRING 2009 TEN MAGAZINE ARTICLE
"RECESSION 101: WHEN IS A DOWNTURN A
RECESSION?"

The article "Recession 101: When is a downturn a recession?" from the spring 2009 issue of TEN Magazine examines when an economy officially enters a recessionary period. It looks at the dynamics of a downturn and how a recession affects businesses, banks and consumers. The article compares and contrasts the current recession to others throughout history, including the Great Depression.

Reading the Article with Students

Read and discuss the article in class, using the direct discussion questions that follow. Students interested in further research on the topic could work on the extension activities and share their findings with the class. The article is available at: www.kansascityfed.org/publicat/ten/pdf/spring2009/recession101.pdf.

1. What is GDP and how can our economy's GDP signal the start of a recession?
2. Why is there a time lag between the beginning of a recessionary period and when it is officially declared a recession?
3. Explain why unemployment rises quickly during a recessionary period.
4. How can the Fed's Beige Book information help consumers understand the current economy?
5. Compare today's recession to the Great Depression of 1929-1933 in terms of bank failures and the unemployment rate. What are the major differences between these two events?
6. Why do you think recessions in general have become rarer and shorter in length more recently?
7. According to the article, what factors have prolonged the current recession?
8. Explain why demand for housing and consumer goods and services are important for economic growth.
9. When is an economic recovery from this downturn predicted? Do you agree with this prediction? Give reasons for your answer.
10. Discuss the effects of the recession on rural America. What has sustained rural economies during this downturn?

Direct Discussion Questions

KEY PERSONAL FINANCE & ECONOMIC CONCEPTS

Review the meanings of some of the personal finance and economic concepts contained in this article.

COMMODITY: *A basic product, usually but not always, agricultural or mineral.*

DEMAND: *The quantity of a good or service that buyers are willing and able to buy at all possible prices during a period of time.*

ECONOMIC GROWTH: *An increase in real output as measured by real GDP or per capita real GDP.*

FEDERAL RESERVE: *The central bank of the U.S. Its main function is controlling the money supply through monetary policy.*

GROSS DOMESTIC PRODUCT: *The market value of all final goods and services produced in a country in a calendar year.*

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1. Look at the Financial Crisis Timeline, located at: <http://timeline.stlouisfed.org/index> to get an overview of some of the highlighted events during the current recession. In reviewing the timeline from 2007-present, find examples of the Fed's response to stabilize the economy. List three actions the Fed initiated during this time period and explain their importance.
2. One of the ways government tried to jumpstart the economy during 2008 was by issuing stimulus checks of \$300-\$600 to each taxpayer, with an additional \$300 paid to parents for each child. This money was given out by the Treasury in hopes that consumers would spend it on goods and services to spur economic growth. Do you think this method is an effective way to stabilize the economy? Explain your reasoning.
3. Check the latest Beige Book survey information on current economic conditions supplied at the Fed at: www.federalreserve.gov/fomc/BeigeBook/2009. Look at the summary report for the twelve Fed Districts and focus on the "Employment and Wages" section. What is the current outlook on labor market conditions across the country? What types of jobs are being reduced? Is there increased job hiring in any area? What is the employment picture in our local Kansas City District?
4. The article referred to the Chicago Fed National Activity Index as a source of monthly economic data and conditions. Look over the index at http://www.chicagofed.org/webpages/research/data/cfnai/current_data.cfm. Go to the latest CFNAI News Release and view the Three Month Moving Average (CFNAI-MA3) graph. Note that any value under -0.70 shows a possible recessionary period. What was the lowest "below average growth" number value in 2009? Has the economy rebounded to a higher level since then? What is our current number value in terms of growth?

Extension Activities

Key Personal Finance & Economic Concepts continued

LABOR MARKET: *The labor supply and demand curve. The intersection of the labor supply and labor demand curves determines the equilibrium wage and the quantity of hours people work at this wage.*

MONETARY POLICY: *Changes in the supply of money and the availability of credit initiated by a nation's central bank to promote price stability, full employment and reasonable rates of economic growth.*

RECESSION: *A decline in the rate of national economic activity, usually measured by a decline in real GDP for at least two consecutive quarters (i.e., six months).*

UNEMPLOYMENT: *The number of people without jobs that are actively seeking work.*

For more economic concepts, definitions and lessons, check out Virtual Economics 3.0 from the National Council on Economic Education (online at www.councilforeconed.org).

Federal Reserve Bank of Kansas City:

TEN Magazine - Spring 2009

"Recessions 101: When is a Downturn a Recession?"

www.kansascityfed.org/publicat/ten/pdf/spring2009/recession101.pdf

Federal Reserve Bank of Kansas City:

Economic Review - First Quarter 2009

"Recession Catches Rural America"

<http://kansascityfed.org/PUBLICAT/ECONREV/PDF/09q1Henderson.pdf>

Financial Crisis Timeline

<http://timeline.stlouisfed.org/index.cfm?p=timeline>

Links and Resources

Beige Book: Current Economic Conditions

<http://www.federalreserve.gov/fomc/beigebook/2009/>

Chicago Fed National Activity Index

http://www.chicagofed.org/webpages/research/data/cfnai/current_data.cfm

Teaching Tips is a FREE resource from the Federal Reserve Bank of Kansas City. It is available on our web site at www.kansascityfed.org.

For more educational resources from the Federal Reserve Bank, contact Michele Wulff (michele.wulff@kc.frb.org).