

# The Stock Market Game™

## Week In Review

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While much of the country has been glued to the [Olympics](#) coverage in Vancouver over the past week, the big news on the street as of late is the Federal Reserve's increase in the emergency funding rate, the rate it charges banks that borrow from the central bank when they run short of funds. The Fed announced late Thursday the [discount rate](#) would increase a quarter percentage point, or 25 basis points to 0.75%, its first move on interest rates since December 2008. While the move is largely symbolic as few banks actually borrow at the discount window, the goal is to try and shift the economy back to a more normal financial footing and moderate any inflationary pressure. Both the stock and bond markets were mixed in Friday's trading.

In other [market news](#), the [Consumer Price Index](#) (CPI), the government's key inflation reading, rose 2.6% during the past 12 months, according to a report from the Labor Department released this morning. Despite the increase, the rise was less than expected and prices excluding food and energy actually fell, something that hasn't happened since December 1982. Many analysts feel the benign inflation news gives the Federal Reserve more time to keep interest rates at record low levels to shore up the economy and should ease worries in financial markets that a Fed rate hike is more imminent.

For many of your Stock Market Game students (and perhaps some of you), the role of the [Federal Reserve Bank](#) may be a bit foreign despite its central role on the overall economy and its importance to the individual investor. Let's start with the basics – what does it do? The Federal Reserve makes loans to commercial banks and is authorized to issue the Federal Reserve notes that make up America's supply of paper money (i.e., the cash in your purse or wallet). It also conducts America's monetary policy; supervises and regulates banks and protects consumers' credit rights; maintains the stability of America's financial system; and provides financial services to the U.S. government, the public, financial institutions, and foreign financial institutions.

To keep the U.S. economy growing, the Fed also 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 week!