

THE COLLEGE FED CHALLENGE HANDBOOK



**Prepared for
College Fed Challenge Participants
by The Federal Reserve Bank of Richmond**

Introduction

The Federal Reserve System plays a crucial role in the United States and foreign economies. Despite its importance, however, the role of the Fed is often misunderstood. The College Fed Challenge has been introduced to help students become more knowledgeable about the Fed and the decision making process used by the Federal Open Market Committee (FOMC), the Federal Reserve System's monetary-policy setting body. Research suggests that students acquire knowledge best through their active involvement in the learning experience. With that in mind, the College Fed Challenge asks economics and business students, represented by three to five-member teams, to undertake research, analyze data about current and near-term economic conditions and then decide upon a specific course for monetary policy. The teams then make presentations based upon their research and analysis and make interest rate recommendations before a panel of judges.

College Fed Challenge Goals

The College Fed Challenge has been established with the following goals:

- ◆ to increase students' awareness and understanding of the unique role of the Federal Reserve in the economy;
- ◆ to promote greater interest in economics as a subject for undergraduate and post-graduate study, and as the basis for a future career;
- ◆ to develop students' research, cooperation, presentation and critical thinking skills; and
- ◆ to develop a closer relationship between the college community and the Federal Reserve Bank.

Student Presentations and Scoring

The Teams

Teams consist of three to five undergraduate students. Each team member is expected to contribute equally to the presentation and participate in the question-and-answer period.

NOTE: Students in the following categories are ineligible to compete:

- Children of current Federal Reserve employees or current members of the Bank's board of directors
- Students who have been employed or are currently employed by the Federal Reserve (this includes internships)

The number of teams may be limited, so registrations will be accepted on a first come, first served basis.

Presentation Components **PLEASE NOTE** – Do not use the name of your university on your PowerPoint or when you introduce yourself to the judges.

Presentations are limited to a maximum of 20 minutes, during which time the team is expected to:

- ◆ analyze current economic conditions (as of the day of the competition);
- ◆ suggest prospects for near-term economic and financial conditions (e.g., inflation, unemployment, real GDP, etc.) critical to the development of monetary policy;
- ◆ identify and discuss significant economic, financial and international issues that should receive special attention in formulating monetary policy at the present time; and
- ◆ recommend whether the Fed should increase, decrease, or take no action with regard to the fed funds rate. Presenters will be expected to give supporting reasons for their recommendations.

Although team members should have some understanding of the history, purposes and structure of the Federal Reserve System, this information should not be the focus of their presentation.

However, judges may raise questions about these subjects in determining a team's "evidence of knowledge of monetary policy and the functions of the Fed" (See scoring rubric and Truth in Judging Statement in Appendix A). A team may choose any format for its presentation, such as FOMC role-play, business-style presentation or other. Consideration should be given to enhancing presentations through the use of overheads or computer-generated slides (e.g.,

PowerPoint). Flip charts, handouts and other paper-based exhibits may be used. Ultimately, judges base their scores on the quality of each team's knowledge of monetary policy, regardless of the media employed. Each team is encouraged to bring its own equipment and should consult with Federal Reserve Bank staff about equipment compatibility prior to its presentation.

The panel of judges has 10 to 15 minutes to ask questions related to the team's understanding of economics, monetary policy and the role of the Fed. Questions may take a number of forms:

- ◆ Probes based upon the presentation (e.g., "What did you mean by saying that the CPI is an unreliable measure of inflation?");
- ◆ Interpretive questions (e.g., "Should the Fed's only goal be to fight inflation or should it continue to have the additional goal of promoting economic growth?");
- ◆ Hypothetical questions (e.g., "If unemployment dipped below 4.0% would that justify raising short-term interest rates?");
- ◆ Historical questions (e.g., "What can we learn from the Fed's policy actions during the Great Depression?");
- ◆ Program evaluation questions (e.g., "What did you learn about monetary policy from participating in the College Fed Challenge?").

Suggestions for Presentations and Responses to Judges' Questions

- 1) Team members may refer to, but should not read from, notes or scripts.
- 2) Each team member should play a substantial role in making the presentation.
- 3) Each team member should participate in the question-and-answer period.
- 4) More than one team member may answer a judge's question.
- 5) Students may confer with each other prior to answering a judge's question; however, excessive team huddling will be penalized in scoring.

Judges' Scoring

After each group's presentation, judges will award a maximum of 50 points to each team using the scoring rubric in Appendix A. A separate judge will score the teams on their presentation skills. Please be familiar with the *College Fed Challenge: Truth in Judging Statement* also found in Appendix A.

Preparing for the Presentation and the Role of Coaches

In setting monetary policy, the FOMC considers a number of factors, including a wide variety of economic and financial indicators¹, and anecdotal regional reports compiled in the "Beige Book."² Classes preparing for the College Fed Challenge can find the current status of these indicators, a summary of the most recently issued Beige Book and other pertinent information in the business section of many newspapers and financial journals, and in reports issued by banks, brokerage and investment companies, and on numerous Web sites.

It is the responsibility of the team to obtain a coach if desired. Coaches can be selected from the school, the business community, or other sources. The coach should help explain the intricacies of monetary policy, interpret indicators, suggest sources and methods of gathering research, and shape, but not structure or write, the team's presentation.

Rehearsing the presentation is important as practice promotes proper timing, a good rate of delivery, smooth transactions, etc. It is equally important to rehearse the question-and-answer session. Both teachers and other students can help prepare the team for this integral part of the competition. Keep in mind that teams tend to separate themselves based on their question-and-answer responses.

¹ A description of some important economic indicators is provided in Appendix B.

² Approximately two weeks prior to each FOMC meeting, the Fed distributes the "Beige Book," a summary of economic conditions in each of the 12 Federal Reserve Districts received based on comments by business and other contacts. A copy is available on the Web site for the Federal Reserve Board of Governors.

Involving All Class Members

While some educators choose to involve only a small number of students in the competition, the College Fed Challenge can be introduced as a whole-class activity. Specifically, the class may be divided into equal-sized teams, with each team assigned the task of making a College Fed Challenge presentation before the entire group. Once the five-member team is identified, the other class members can engage in one or more of the following important supporting roles:

- ◆ gathering research
- ◆ preparing charts, overheads and/or computer-generated slides
- ◆ interviewing
- ◆ judging practice sessions
- ◆ brainstorming
- ◆ conducting surveys
- ◆ serving as alternates

Notification of Winners

All teams will be notified by E-mail regarding the winner of the competition.

Questions?

For Richmond competition, please call Lis Turner at 804-697-8135 or 800 526-2031 or E-mail her at lis.turner@rich.frb.org.

For Baltimore competition, please call Diana Wilkes at 410-576-3387 or 800-368-2800 ext 3385 or E-mail her at diana.wilkes@rich.frb.org.

For Charlotte competition, please call Yolanda Ferguson at 704-358-24495 or - 1-800-729-9800 ext. 495 or E-mail her at yolanda.ferguson@rich.frb.org.

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APPENDIX A
TRUTH IN JUDGING STATEMENT
SCORING RUBRIC

College Fed Challenge: Truth in Judging

In comparing College Fed Challenge teams, judges seek to answer the following question:

Which team most convincingly demonstrates its understanding of U.S. monetary policy? Components of this understanding include how and why the Federal Reserve establishes and implements monetary policy, how this policy affects the overall economy, and which issues are driving present-day policy debates?

Answering this question involves a considerable degree of subjective evaluation. In the above question, “understanding” is a key to victory, but so is “convincingly demonstrates.”

Our scoring rubric requires our judges to compare teams on five dimensions:

- ◆ Knowledge of monetary policy and of the Federal Reserve’s role in its implementation;
- ◆ Responses to judges’ questions;
- ◆ Quality of the presentation;
- ◆ Quality of the research and analysis; and
- ◆ Evidence of teamwork and cooperation.

The primary thrust of Fed Challenge is economics, not forensics, so judges tend to place the greatest weight on knowledge of monetary policy and the Fed's role. At the same time, forensic performance is important. Winning teams are likely to be strong on all five criteria. Judges, however, generally place the highest weight on a team’s performance in the question-and-answer period, because Q&A is the activity most likely to reveal analytical weakness or strength. A strong question-and-answer performance, though, is not sufficient to carry the day if the team’s presentation is weak or analytically flawed, if the team members fail to demonstrate a cooperative spirit, or if their research is lacking.

In the end, our judges use all five criteria to the best of their abilities to answer the overarching question at the top of this page.

College Fed Challenge scoring rubric

Category	10 Points	8 – 9 Points	5-7 Points	3-4 Points	1-2 Points
Knowledge of the Fed, current state of the economy and monetary policy	<i>Always presents accurate information & demonstrates a thorough understanding of basic & sophisticated concepts.</i>	<i>Consistently presents accurate information & demonstrates a thorough understanding of the basic concepts.</i>	<i>Frequently presents accurate information & demonstrates less than average understanding of the basic concepts.</i>	<i>Mixes accurate & inaccurate information & demonstrates less than average understanding of the basic concepts.</i>	<i>Provides little accurate information & demonstrates poor understanding of the basic concepts.</i>
Responses to judges' questions	<i>* Always answers to the point & shows poise under pressure. Always demonstrates ability to think quickly. * Extremely persuasive in defending positions that are challenged.</i>	<i>* Consistently answers to the point & shows poise under pressure. *Consistently demonstrates the ability to think quickly. * Convincing in defending positions that are challenged.</i>	<i>* Frequently answers to the point & shows poise under pressure. * Frequently demonstrates the ability to think quickly. * Adequately defends positions that are challenged.</i>	<i>* Occasionally answers to the point & shows poise under pressure. * Occasionally demonstrates the ability to think quickly. * Less than adequately defends positions that are challenged.</i>	<i>* Rarely answers to the point & shows poise under pressure. * Rarely demonstrates the ability to think quickly. * Provides poor defenses for positions that are challenged.</i>
Quality of the Presentation	<i>*Extremely persuasive in advocacy role. Always demonstrates logical & coherent organization. * Each student speaks with great confidence & with sufficient volume to be heard by all. *Always integrates audio-visual aids/media appropriately. * Students never read from notes or script.</i>	<i>*Persuasive in advocacy role. * Consistently demonstrates logical & coherent organization. * Most students speak with great confidence & with sufficient volume to be heard by all. *Consistently integrates audio-visual aids/media appropriately. * Students rarely read from notes or script.</i>	<i>*Frequently persuasive in advocacy role. *Consistently demonstrates logical & coherent organization. * Some students speak with great confidence & with sufficient volume to be heard by all. *Frequently integrates audio-visual aids/media appropriately. * Students occasionally read from notes or script.</i>	<i>*Occasionally persuasive in advocacy role. *Occasionally demonstrates logical & coherent organization. * Few students speak with confidence & with sufficient volume to be heard by all. *Occasionally integrates audio-visual aids/media appropriately. * Students frequently read from notes or script.</i>	<i>* Rarely persuasive in advocacy role. *Rarely demonstrates logical & coherent organization. * Students speak with minimum confidence & with insufficient volume to be heard by all. *Rarely integrates audio-visual aids/media appropriately. * Students depend heavily on notes or a script.</i>

Research and analysis	<p><i>* Conclusions drawn from the data are always logical & insightful.</i></p> <p><i>*Recommendations are always supported by relevant data.</i></p> <p><i>*A wide variety of authoritative sources are used.</i></p>	<p><i>* Conclusions drawn from the data are most often logical & insightful.</i></p> <p><i>*Recommendations are consistently supported by relevant data.</i></p> <p><i>* Mostly authoritative sources are used.</i></p>	<p><i>* Conclusions drawn from the data are frequently logical & insightful.</i></p> <p><i>*Recommendations are frequently supported by relevant data.</i></p> <p><i>* Some authoritative sources are used.</i></p>	<p><i>* Conclusions drawn from the data are occasionally logical & insightful.</i></p> <p><i>*Recommendations are occasionally supported by relevant data.</i></p> <p><i>*Few authoritative sources are used.</i></p>	<p><i>* Conclusions drawn from the data lack logic & insight.</i></p> <p><i>* Recommendations are rarely supported by relevant data.</i></p> <p><i>*Authoritative sources are ignored.</i></p>
Teamwork and cooperation	<p><i>* Each team member plays a substantial & integral role.</i></p> <p><i>* Demonstrates extensive evidence of coordination among team members.</i></p>	<p><i>*Although some team members play a greater role than others, each student contributes significantly.</i></p> <p><i>* Demonstrates significant evidence of coordination among team members.</i></p>	<p><i>* Some team members dominate, while the others contribute to varying degrees.</i></p> <p><i>* Demonstrates some evidence of coordination among team members.</i></p>	<p><i>* Some team members dominate, while the others make modest contributions.</i></p> <p><i>* Demonstrates little evidence of coordination among team members.</i></p>	<p><i>* One or two team members dominate, while the others contribute negligibly.</i></p> <p><i>* Demonstrates insignificant evidence of coordination among team members.</i></p>

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**APPENDIX B
COMMON ECONOMIC INDICATORS
&
USEFUL WEB RESOURCES**

Economic Indicators

Real Gross Domestic Product

Definition: The total value of goods and services produced within the borders of the United States, regardless of who owns the assets or the nationality of the labor Used in producing that output. [(In contrast, Gross National Product (GNP) measures the output of the citizens of the US and the income from assets owned by US entities, regardless of where located.)] The growth of output is measured in real terms; meaning increases in output due to inflation have been removed.

Source: U. S. Department of Commerce; Bureau of Economic Analysis

Frequency: Quarterly

Availability: Data is typically released during the final week of the month. The first or advance estimate is released during the final week of the month immediately following the end of a calendar quarter. (Example: the advance estimate for Q1 would be released during the final week of April.) The preliminary and final estimates are released two and three months after the end of the calendar quarter, respectively.

Reason: The Federal Reserve's primary goal is sustained growth of the economy with full employment and stable prices. Real GDP is the most comprehensive measure of the performance of the US economy. By monitoring the trends in the overall growth rate, as well as the unemployment rate and the rate of inflation, policy makers are able to assess whether the current stance of monetary policy is consistent with that primary goal.

Consumer Price Index (CPI)

Definition: An index designed to measure the change in price of a fixed market basket of goods and services. The market basket of goods and services is representative of the purchases of a typical urban consumer. The index is intended to measure pure price change only; attempts are made to remove changes in price resulting from changes in quality.

Source: U. S. Department of Labor; Bureau of Labor Statistics

Frequency: Monthly

Availability: Generally available the second week of the month immediately following the month for which data is being released; always released after the Producer Price Index.

Reason: The rate of change of the CPI is one of the key measures of inflation for the U. S. economy. Acceleration or deceleration of inflation may signal that a change in monetary policy may be appropriate.

Nonfarm Payroll Employment

Definition: An estimate of the number of payroll jobs at all nonfarm business establishments and government agencies. Information is also provided on the average number of hours worked per week and average hourly and weekly earnings.

Source: U. S. Department of Labor; Bureau of Labor Statistics

Frequency: Monthly

Availability: Usually the first Friday of the month for the immediately preceding month; occasionally released on the second Friday.

Reason: Growth of employment and hours worked provide important information about the current and likely future pace of overall economic growth. Trends in average hourly earnings provide information about supply and demand conditions in labor markets, which may provide signals about the overall level of resource utilization in the economy.

Housing Starts

Definition: An estimate of the number of housing units on which construction was started. Starting construction is defined as excavation for the footings or foundation, or “the first shovel of dirt to break ground.” (In response to natural disasters such as Hurricane Katrina in August of 2005, that definition has been expanded to a Housing unit built on an existing foundation after the previous structure had been completely destroyed.) Housing starts are divided into single-family and multifamily (2+) units. Beginning construction on a 100-unit apartment building, for example, is counted as 100 starts.

Source: U. S. Department of Commerce; Bureau of the Census

Frequency: Monthly

Availability: Around the 15th of the month for the immediately preceding month.

Reason: Housing is perhaps the most interest-rate sensitive sector of the economy. It often experiences large swings in activity in response to changes in the level of long-term interest rates such as those on mortgages. While residential investment represents just four percent of the level of GDP, due to its volatility it frequently represents a much higher portion of changes in GDP over relatively short periods of time. Policy makers monitor the Housing sector very carefully for clues about the near-term performance of the economy and for the effects of changes in financial conditions.

Industrial Production/Capacity Utilization

Definition: An index designed to measure changes in the level of output in the industrial sector of the economy. The index is grouped by both products (consumer goods, business equipment, intermediate goods, and materials) and industry (manufacturing, mining and utilities). From the level of production, estimates are made of the percent of capacity currently being utilized.

Source: Board of Governors of the Federal Reserve System

Frequency: Monthly

Availability: Preliminary estimate released around the middle of the month for the immediately preceding month.

Reason: While the industrial sector of the economy represents only about 20 percent of GDP, changes in GDP are heavily concentrated in the industrial sector. Therefore, changes in this index provide Useful information on the current growth of GDP. The level of capacity utilization in the industrial sector provides information on the overall level of resource utilization in the economy, which may in turn provide information on the likely future course of inflation.

Retail Sales

Definition: An estimate of the total sales of goods by all retail establishments in the United States (sales of services are not included). Data are presented in nominal or current dollars, meaning they are not adjusted for inflation. However, the data are adjusted for seasonal, holiday and trading-day differences between the months of the year. Sales are categorized by type of establishment, not by type of good.

Source: U. S. Department of Commerce; Bureau of Census

Frequently: Monthly

Availability: Advance estimate released during the second week of the month for the immediately preceding month.

Reason: Personal consumption expenditures (PCE) represent roughly two-thirds of GDP. By monitoring retail sales, policy makers are able to make an assessment of the likely growth of PCE for the current and future quarters.

Business Sales and Inventories

Definition: Total current-dollar sales and inventories for the manufacturing, wholesale and retail sectors of the economy.

Source: U. S. Department of Commerce; Bureau of Census

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Frequency: Monthly

Business Sales and Inventories - continued

Availability: About six weeks from the end of the month; for example, data for June reported in mid-August.

Reason: This release is the primary source of data on inventories. The rate of inventory accumulation plays a key role in determining the current pace of economic growth and often provides useful clues about the future pace of growth as well. For example, if inventories are accumulating at a rapid pace, such that inventory sales to ratios are rising, it may portend a slowing of growth in the near future as firms cut production to bring inventories back into line with sales. Conversely, if inventories are growing slowly or actually falling, it may signal a future pickup in production.

Advance Report on Durable Goods Shipments, New Orders and Unfilled Orders

Definition: Data on shipments, new orders and unfilled orders, expressed in current dollars, for things such as primary metals; fabricated metals; electric generating equipment; non-electrical machinery; information processing equipment; and transportation equipment, including civilian and military aircraft and ships, light-, medium-, and heavy-duty trucks, and automobiles.

Source: U. S. Department of Commerce; Bureau of Census

Frequency: Monthly

Availability: Fourth week of the month for the immediately preceding month.

Reason: The data in this report provides information on the strength of demand, from both domestic and foreign sources, for U. S. manufactured durable goods. Rising orders, shipments, and unfilled orders suggest demand is strengthening, which will likely result in increasing production and employment, while falling orders, shipments and unfilled orders suggest the opposite. Data in this release also provides information on the current and likely future pace of business investment in new equipment.

Light-Weight Vehicle Sales

Definition: Total unit sales and leases of domestic and imported new automobiles and lightweight trucks (up to 10,000 pounds gross vehicle weight). Includes sales and leases to both consumers and businesses.

Source: Not seasonally-adjusted sales data. Ward's Automotive Reports American Automobile Manufacturers Association. Seasonal adjustment factors: U. S. Department of Commerce, Bureau of Economic Analysis

Frequency: First, second and third 10 days of each month, and monthly.

Availability: Third business day after the relevant selling period.

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Reason: While a relatively small component of the overall economy, changes in the lightweight vehicle sector often account for a large part of quarter-to-date changes in the rate of growth of GDP.

Yield on 10-year Treasury Bond

Definition: The current market interest rate or yield on U. S. Treasury bonds maturing 10 years in the future.

Source: Board of Governors of the Federal Reserve System

Frequency: Daily

Availability: Daily data available in most major newspapers; daily, weekly, and monthly data are reported in the H.15 report, which is released each Monday by the Fed.

Reason: Movements in long-term interest rates such as the 10-year Treasury rate provide information about likely future changes in the level of activity in the interest-rate sensitive sectors of the economy. For example, mortgage interest rates often move in tandem with the 10-year Treasury rate, and changes in mortgage rates often precede changes in the level of activity in Housing markets.

S&P 500 Stock Index

Definition: One of several indices designed to measure changes in a price of a broad array of stocks.

Source: Compiled by Standard & Poors. Available in most major newspapers and several on-line market information sources.

Frequency: Daily through newspapers; instantaneous through on-line information sources.

Reason: The stock market is one measure of the current value of the nation's stock of capital and is often viewed as a barometer of business and consumer confidence regarding the future. A high and/or rising stock market may signal robust growth of business investment and consumer spending in the near future while a low and/or falling stock market may signal sluggish spending. For this reason, the S&P 500 is one component of the Index of Leading Indicators.

M2

Definition: One measure of the nation's supply of money, defined as M1 (currency in circulation, demand deposits, travelers' checks and other checkable deposits) plus non-institutional money market funds and small time and savings deposits.

Source: Board of Governors of the Federal Reserve System

Frequency: Weekly and monthly

Availability: H.6 report. Weekly data released each Thursday afternoon after 4:30 p.m. Monthly data released in either the second or third week of the month.

Reason: While the strength of the relationship has weakened over time, many people believe there is a link between the growth of the supply of money and growth of nominal GDP.

Useful Web Sites/Resources

Federal Reserve Board of Governors Web Site

<http://federalreserve.gov>

- Select “News and Events” for speeches, testimonies, press releases, Monetary Report to Congress.
- Select “Monetary Policy” for FOMC Statements, Meeting Minutes, Beige Book Reports.

The Federal Reserve: Purposes and Functions, 2005 edition

<http://federalreserve.gov/pf/pf.htm>

Official handbook on the Fed’s structure and functions. Chapters 2 & 3 cover monetary policy.

U.S. Monetary Policy: An Introduction, revised 2004

<http://www.frbsf.org/publications/federalreserve/monetary/index.html>

Discussion of monetary policy issues in a Q&A format.

President’s Report to the Board of Directors

<http://www.bos.frb.org/economic/national/president/index.htm>

Monthly narrative summary of current U.S. national economic conditions with supporting charts.

Selected Economic Indicators “By The Numbers”

<http://www.ny.frb.org/education/bythe.html>

Definitions of 12 economic indicators and the reason the Fed watches them. Links to current releases.

Economic Indicator Calendar

http://www.newyorkfed.org/research/national_economy/nationalecon_cal.html

Three-month calendar of economic indicator release dates with links to current releases.

U.S. Economic Data

<http://www.dallasfed.org/data/usdata.html>

Charts, plus supporting data tables, of U.S. indicators. Features a comprehensive slide presentation.

Cleveland Fed Economic Commentary

<http://www.clevelandfed.org/Research/Com2006/Index.cfm>

Short essays on current topics, including monetary policy and national economic conditions.

San Francisco Economic Letter

<http://www.frbsf.org/publications/economics/letter/>

Short essays on current topics, including monetary policy and national economic conditions.

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FED101

<http://www.FederalReserveEducation.org/fed101/>

On-line introductory tutorial on the Fed's structure, history, and functions, including monetary policy.

High School Fed Challenge Competition Web Site

http://www.FederalReserveEducation.org/teachers/FedChallenge/FedChallenge_intro.htm

“Presentation” page and “Research” page can be useful for College Fed Challenge preparation.

Fed In Print

<http://www.frbsf.org/publications/fedinprint/index.html>

Boolean search tool to locate research articles and working papers written by Fed economists.

Federal Reserve System Publications Catalog

<http://www.newyorkfed.org/publications/>

System-wide catalog of publications, nearly all titles free of charge, many available to download.