Choice:
ECONOMICS MATERIALS FOR SUCCESS
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Steady as She Goes? Reading the FED (and the FOMC Statement)

NOTE: Guest post by Florencia Gabriele.

Related news article: Federal Reserve issues FOMC statement (*May 7th 2025, 2025*)

Summary: This worksheet is suitable for in-class or homework practice. Students will read excerpts from a May 7, 2025, Federal Reserve press release outlining the Fed's current assessment of the U.S. economy and its decision to hold interest rates steady. The statement highlights continued solid economic growth, a low but stable unemployment rate, and inflation that remains somewhat elevated. It also notes increased uncertainty and the risks of both rising unemployment and persistent inflation. While applicable to several macroeconomic topics (monetary policy, inflation, interest rates, and employment), this worksheet focuses on the Fed's dual mandate and how interest rate decisions influence broader economic outcomes. Students will analyze how the Fed uses the federal funds rate to balance inflation and employment goals, explore the connection between monetary policy and consumer behavior, and evaluate how uncertainty affects central bank decision-making**.** **Answers are provided at the end of this document.**

Learning objectives: At the end of this worksheet, students will be able to:

- Explain how the Federal Reserve uses the federal funds rate to influence inflation and employment;
- Describe the goals of the Fed's dual mandate and how they guide monetary policy decisions;
- Analyze how interest rate changes can affect consumer spending, business investment, and labor markets;
- Evaluate the role of uncertainty in shaping the Fed's approach to adjusting interest rates and managing economic risk.

National Voluntary Content Standards in Economics & Benchmarks: Standard 19: Unemployment and Inflation & Standard 20: Monetary Policy

Macroeconomics Unit 4: Monetary Policy and the Financial Sector & Unit 2: Economic Indicators and the Business Cycle

Economics concepts: Monetary Policy, Federal Funds Rate, Inflation and Price Stability, Employment and Labor Markets, Interest Rates and Consumer Behavior, Central Bank Decision-Making under Uncertainty

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est. 1946

Key Terms Glossary

- **Federal Reserve (The Fed)-** The central bank of the U.S. that helps manage the economy by setting interest rates and controlling the money supply.
- **Federal Open Market Committee (FOMC)-** A group within the Fed that decides on interest rate changes and other policies to guide the economy.
- **Monetary Policy-** Actions by the Fed to influence the economy—mainly by adjusting interest rates—to uphold its "dual mandate"
- **Dual Mandate = The Fed's two main goals:**
  - **Maximum Employment –** Keeping unemployment within a particular "healthy" range
  - **Price Stability –** Keeping inflation rates low and steady.
- **Inflation-** A rise in prices across the economy. It makes money worth less over time.
- **Interest Rate-** The cost of borrowing money or the return on savings. Higher rates make borrowing more expensive.
- **Target Range for the Federal Funds Rate-** The interest rate range the Fed sets for banks to use when lending to each other. It affects borrowing costs for consumers by impacting interest rates.
- **Economic Outlook-** A prediction of where the economy is headed—looking at jobs, inflation, and growth.
- **Labor Market Conditions-** How easy or hard it is for people to find jobs, and whether wages are rising or falling.
- **Balance of Risks-** The Fed's view of whether threats like high inflation or unemployment are more likely.

Suggested excerpts: May 7, 2025 FOMC Statement

"Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace."

"The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid."

"Inflation remains somewhat elevated."

"The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run."

"Uncertainty about the economic outlook has increased further."

"The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen."

"The Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent."

"The Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."

"The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective."

"The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."

Student Questions

Name: _____ Date: _____

PRE-READING: Check your understanding of these key terms using the Glossary provided in this week's *Suggested Excerpts* page.

I. What is the primary purpose of the **Federal Open Market Committee** (FOMC)?
   a) Collect taxes
   b) Set interest rates
   c) Supervise banks
   d) Approve government budgets

II. What does **inflation** measure?
   a) The number of people without jobs
   b) The total value of exports and imports
   c) The general rise in prices across the economy
   d) The number of new businesses started each year

III. How does the **federal funds rate** influence consumers?
   a) It changes how banks are taxed
   b) It sets the national minimum wage
   c) It affects the prices of goods in stores
   d) It helps determine interest rates on loans and credit cards

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1. According to the article, what is the Federal Reserve's "dual mandate?"

2. What is the main purpose of the FOMC's statement?

A. To explain how to apply for a job at the Federal Reserve
B. To update the public on economic activity and monetary policy decisions
C. To announce tax refunds for low-income households
D. To encourage people to invest in the stock market

3. Based on the May 7 press release, how would *you* rate the current state of the economy on the following two scales?

A. Employment Conditions
⬜ Very Weak ⬜ Weak ⬜ Fair ⬜ Solid ⬜ Excellent

B. Inflation Levels
⬜ Very Low ⬜ Low ⬜ Somewhat Elevated ⬜ High ⬜ Very High

📝 *Make your selections above, then briefly explain why you chose each one using evidence from the press release.*

4. What are the two main goals the Fed is trying to achieve, according to the press release?

A. Low taxes and high savings
B. High profits and low interest rates
C. Maximum employment and 2% inflation
D. Growth in exports and imports

5. What recent economic trend is mentioned in the press release?

A. A large increase in unemployment
B. Falling prices in the housing market
C. Continued solid economic expansion
D. A severe stock market crash

6. What is the federal funds rate, and what decision did the Fed make about it in this press release?

7. Why might the Federal Reserve choose not to raise or lower interest rates, even when inflation is elevated?

8. What other tools or actions is the Fed using besides interest rates, according to the statement?

9. What does the Fed say it will do if new risks to the economy appear?

A. Raise taxes to control spending
B. Pause all economic activity
C. Adjust monetary policy if necessary
D. Ask Congress for permission to raise or lower taxes

10. Imagine you have a summer internship at the Federal Reserve Bank in Washington, D.C. The **Economic Scenario:** Inflation rises to 3.5%, and unemployment starts to tick up. You're busy collecting community business survey data for the upcoming FOMC meeting. **Make a prediction:** What is the committee most likely to do?

    Options:

    a) Raise interest rates to fight inflation
    b) Lower interest rates to fight unemployment
    c) Keep rates steady to avoid causing more disruption
    d) Let market forces respond without government interference

11. **Follow-up (short answer):** Explain your choice and one possible expected outcome.

12. Assuming the economy heats up over the summer. Match the Federal Reserve action to its possible effect on the economy:

Fed Action	Likely Economic Effect
____ A. Lowers interest rates	1. Makes borrowing more expensive
____ B. Raises interest rates	2. Encourages more borrowing and spending
____ C. Keeps rates steady despite rising inflation	3. Risk of inflation continuing above target

13. **Cost-Benefit Reflection: Who Pays the Price?-** When the Fed tries to reduce inflation by raising interest rates, it can slow down business investment and job creation. Who benefits most from the Fed's decisions—and who might be hurt by them?

List at least one benefit and one cost, and explain your reasoning.

14. Below are eight policy statements—some come from the Federal Reserve's May 7 statement, and others reflect common limited market intervention critiques of central banking.

Step 1: Read each statement carefully.

Step 2: Sort each one into one of two categories; record the statement number in the corresponding column:

Pro-Fed Intervention	Market-Based Alternatives

Policy Statements:

1. "The Committee decided to maintain the target range for the federal funds rate at 4¼ to 4½ percent."
2. "Markets adjust more efficiently when left alone, without manipulation of interest rates."
3. "The Fed should reduce its bond holdings to help tighten monetary policy."
4. "Government efforts to control inflation often cause more distortions than they fix."
5. "The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective."
6. "Interest rates should be determined by supply and demand for savings and credit—not by a central authority."
7. "We will carefully assess incoming data before making further changes to the interest rate."
8. "No single group should have the power to control the money supply for the entire country."

Answer Key

FEE.Org Related Reading: [How Thinking about Money as Time Can Improve Your Life (and Financial Decisions)]

PRE-READING: Check your understanding of these key terms using the Glossary provided in this week's *Suggested Excerpts* page.

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1. According to the article, what is the Federal Reserve's "dual mandate?"

Answer:
The Federal Reserve's dual mandate is to promote maximum employment and maintain stable prices (around 2% inflation). The press release shows the Fed is balancing these goals by keeping interest rates steady while acknowledging that both inflation and unemployment risks have increased. The Fed states it remains strongly committed to supporting job growth and bringing inflation back down to its 2 percent target.

2. What is the main purpose of the FOMC's statement?

a. To explain how to apply for a job at the Federal Reserve
b. To update the public on economic activity and monetary policy decisions
c. To announce tax refunds for low-income households
d. To encourage people to invest in the stock market
Answer: The FOMC statement shares the Fed's current view of the economy and its decisions about interest rates. It helps the public, businesses, and investors understand what the Fed is doing and why.

3. Based on the May 7 press release, how would *you* rate the current state of the economy on the following two scales?

A. Employment Conditions

⬜ Very Weak ⬜ Weak ⬜ Fair ⬜ **Solid** ⬜ Excellent

B. Inflation Levels

⬜ Very Low ⬜ Low ⬜ **Somewhat Elevated** ⬜ High ⬜ Very High

📝 *Make your selections above, then briefly explain why you chose each one using evidence from the press release.*

Suggested Answer:

The press release says the unemployment rate has stayed low and that labor market conditions are solid. This means many people are employed. However, inflation is still "somewhat elevated," meaning prices are rising faster than the 2% goal. So, while employment is strong, inflation is still a concern.

4. What are the two main goals the Fed is trying to achieve, according to the press release?

A. Low taxes and high savings
B. High profits and low interest rates
C. Maximum employment and 2% inflation
D. Growth in exports and imports

Answer: These two goals are known as the Fed's dual mandate: helping as many people as possible find jobs while keeping prices stable (with 2% inflation as the long-term target).

5. What recent economic trend is mentioned in the press release?

A. A large increase in unemployment
B. Falling prices in the housing market
C. Continued solid economic expansion
D. A severe stock market crash

Answer: The press release says economic activity is expanding at a "solid pace," meaning the economy is growing steadily—not too fast or too slow.

6. What is the federal funds rate, and what decision did the Fed make about it in this press release?

Answer: The federal funds rate is the interest rate that banks charge each other to borrow money overnight. It influences other interest rates in the economy, like those for car loans or mortgages. In the press release, the Fed decided to keep the target range at 4¼ to 4½ percent, meaning it did not raise or lower the rate this time.

7. Why might the Federal Reserve choose not to raise or lower interest rates, even when inflation is elevated?

Answer: The Fed might hold interest rates steady if it is uncertain about the future of the economy. The press release mentions increased uncertainty and risks to both higher unemployment and higher inflation. By keeping rates steady, the Fed can wait for more data before making a decision, so it doesn't accidentally hurt the economy.

8. What other tools or actions is the Fed using besides interest rates, according to the statement? Why might these be important?

Answer: Besides interest rates, the Fed is also reducing its holdings of Treasury securities and mortgage-backed securities. This is called balance sheet reduction and it helps tighten monetary policy by reducing the amount of money circulating in the economy. This can also help fight inflation, even if the interest rate stays the same.

9. What does the Fed say it will do if new risks to the economy appear?
   A. Raise taxes to control spending
   B. Pause all economic activity
   C. Adjust monetary policy if necessary
   D. Ask Congress for permission to raise or lower taxes

Answer: The Fed says it's ready to act if new problems arise—like rising inflation or unemployment. It can adjust interest rates or use other tools to respond.

10. Imagine you have a summer internship at the Federal Reserve Bank in Washington, D.C. The **Economic Scenario:** Inflation rises to 3.5%, and unemployment starts to tick up. You're busy collecting community business survey data for the upcoming FOMC meeting. **Make a prediction:** What is the committee most likely to do?

    Options:

    a) Raise interest rates to fight inflation
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    c) Keep rates steady to avoid causing more disruption
    d) Let market forces respond without government interference

11. **Follow-up (short answer):** Explain your choice and one possible expected outcome.

***Answers may vary*- Most Likely Choice: c) Keep rates steady to avoid causing more disruption**

With inflation at 3.5% (still above the 2% target) and unemployment starting to rise, the FOMC would likely be cautious. Raising rates could make unemployment worse, and lowering them could risk even higher inflation. Keeping rates steady allows the Fed to gather more data before acting. This measured approach might help maintain stability while avoiding an overreaction in either direction. An expected outcome could be continued gradual inflation moderation, but slower improvement in the job market.

12. Assuming the economy heats up over the summer. Match the Federal Reserve action to its possible effect on the economy:

Fed Action	Likely Economic Effect
2. A. Lowers interest rates	1. Makes borrowing more expensive
1. B. Raises interest rates	2. Encourages more borrowing and spending
3. C. Keeps rates steady despite rising inflation	3. Risk of inflation continuing above target

13. **Cost-Benefit Reflection: Who Pays the Price?-** When the Fed tries to reduce inflation by raising interest rates, it can slow down business investment and job creation. Who benefits most from the Fed's decisions—and who might be hurt by them?

List at least one benefit and one cost, and explain your reasoning.

Suggested Answer:
Benefit: Savers and consumers may benefit because raising interest rates can help reduce inflation, which protects the value of their money and slows rising prices on everyday goods.

Cost: Borrowers and businesses may be hurt because higher interest rates make it more expensive to take out loans for things like buying a house, expanding a company, or hiring new workers—potentially leading to fewer jobs and slower economic growth.

Explanation: The Fed's decision to raise interest rates is meant to control inflation, which helps maintain stable prices. However, this can also make borrowing more costly, discouraging investment and hiring. While price stability helps everyone in the long run, there are short-term trade-offs that affect different groups in different ways.

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Pro-Fed Intervention	**Market-Based Alternatives**
1., 3., 5., 7.	**2., 4., 6., 8.**

Policy Statements:

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