



# Money and Monetary Policy in Canada

## LESSON PLAN MODULE 5: MONEY AND THE ECONOMY

**“Money and Monetary Policy In Canada” by Gary Rabbior**

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This module outlines topics such as the goals for the Canadian economy; examines why economic stability is so important; explores the role of money and growth in our society and examines various challenges to our economy and spending with the potential result of inflation or deflation.

## **Learning Outcomes**

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The students will be able to:

1. Explain that we live in a global economy and are, therefore, subject to events beyond our control.
2. Identify ways in which we work to control influences on our economy.
3. Identify ways we monitor our economy to help stabilize prices and expectations.
4. Examine the role that money plays in our economy.
5. Demonstrate an understanding of inflation and deflation and the impacts they have on our economy.
6. Relate how important items such as economic capacity and current spending are determined and their significance.

## **New terminology**

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- Nominal versus real
- Fixed incomes
- Inflation
- Deflation
- Consumer price index
- Relative price changes
- Credit
- Debasing
- Spot and future prices
- Consumption
- Investment

- Public goods
- Cost-push
- Demand-pull
- Aggregate demand
- Engineering capacity
- Economic capacity
- Frictional unemployment
- Structural Unemployment

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## Implementation Strategies

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This lesson will require four class periods to complete as the students will be involved in two different group-based activities and will require internet access to research material and view a Bank of Canada video.

### Period One:

- In preparation for the activity the students are going to be engaged in, discuss briefly with them what should be four goals of the Canadian economy:
  - a) Create and provide good quality jobs that will allow Canadians to achieve a desirable standard of living.
  - b) Use available resources efficiently and wisely to produce goods and services that Canadians want and need.
  - c) Over time, increase the wealth created to enable Canadians to improve their standard of living and be better able to provide needed social programs and assistance.
  - d) Continuously improve Canada's ability to produce goods and services and minimizing the effects on the environment.
- As additional background have them access the following Bank of Canada website and read the article entitled "Monetary Policy." – <http://www.bankofcanada.ca/core-functions/monetary-policy/> and stress with them that one major goal of the Bank of Canada is **price stability** as significant fluctuations in prices cause uncertainty in the markets which has a negative impact on the economy.
- (Note: If internet access is not available reproduce the article and distribute hard copies to the students.)
- At this point draw the students' attention to the fact that we live in a global economy and, therefore, things over which we have little or no control are going to happen that have impacts on our economy.
- With all of this as preparation, inform the students that they are going to be asked to look at a series of hypothetical situations and to speculate on the impact of the identified changes on both prices and the economy.

- Give the students the following condition and then present them with the changes in each scenario asking them to suggest what they think will be the results on prices and the economy in each case.

“You live in a society in which there are no fixed prices. You have to bid on every purchase you make.”

**Scenario A:**

Everyone’s income is doubled but the amount of goods and services remain the same.

**Scenario B:**

1/3 of the people have their income doubled, 1/3 see no change and 1/3 see their income cut in half with no change in the amount of goods and services.

**Scenario C:**

Everyone’s income is cut in half but the amount of goods and services remains constant.

**Scenario D:**

Some new goods and services are added and everyone has an increased income.

- For each scenario listen to the responses to see if there is a consensus.
- Once the discussion has been completed, divide the class into four groups and assign one of the scenarios to each group.
- Inform them that they are to consult the appropriate pages of Module 5 dealing with the Auction Block game (Games B, C, D and E) and prepare a report for the class on the details of what would likely happen in their scenario and explain any terms or concepts that are necessary to fully understand the impact of their scenario on prices and the economy.
- Allow the groups the remainder of class time to complete their assignment.

**Period Two:**

- Begin the lesson by having each group report their findings and answer any questions or comments from the class. Have the students take notes as each group reports to reinforce the ideas and concepts presented.
- As a transitional activity which touches on topics such as inflation and interest rates and examines the role of money have the students watch the Bank of Canada ten minute video entitled, “Bank of Canada Count on Us” – <http://hb108.loopmediasecure.com/video/61731984> and allow the students to comment on what they have just seen.
- Assign the reading of “A Prisoner of War Camp Story” found in Module 5 for homework and allow the remainder of the period for the students to begin this assignment.

**Period Three:**

- Review the homework reading with the students and stress that the level of output and employment in the economy will not be determined by the amount of money. Money, however, does play a key role in the system.
- With that in mind, indicate to the students that, in managing the monetary policy, the Bank of Canada is focused, not on the current levels of economic activity, but on the likely future direction so its eyes are on inflationary pressures in the economy.
- Have them read the following backgrounder on inflation control found on the Bank of Canada website – [http://www.bankofcanada.ca/wp-content/uploads/2010/11/inflation\\_control\\_target.pdf](http://www.bankofcanada.ca/wp-content/uploads/2010/11/inflation_control_target.pdf)
- Identify for them that there are three primary factors which affect pressure on prices.
  1. Current capacity of the economy to produce goods and services – as spending increases there is an effort to produce more but is it able to do so?
  2. Current level of production in the economy – if resources are available it may take time to bring additional goods into circulation so there may be an increase in prices.
  3. Trends in current total spending – rising or falling? – if spending continues or increases and, if resources are not available, prices will rise, perhaps sharply. It is the job of Statistics Canada to do this calculation.

- Stress with the students that in order to meet the goal of stabilized growth and price stability, identification of developing trends must be as accurate as possible in order to take the steps necessary to address inflationary or deflationary tendencies.
- Inform the students that they are now going to engage in a group snowballing activity to explore four areas related to knowing what we can expect from an economy in response to more spending and whether there are inflationary or deflationary risks.
- Have the students number off using only the numbers 1 and 2.
- Indicate that the number 1's are to:
  1. address the task of explaining the equation:  
**Total spending in the economy = C + I + G + (X-M)**  
and to explain what each letter represents and the challenges facing Statistics Canada in making certain that each factor is correct.
  2. Explain what is taken into consideration in answering the question:  
How much is the economy currently capable of producing if all the current available resources were used?
- Indicate that the number 2's have the same task with the following two questions:
  3. How much is the economy currently producing in relation to what it is capable of producing? What is the gap between the country's current level of production and its potential?
  4. What is the current level of spending and are spending levels rising or falling?
- The students should be given the remainder of the period to work on their specific task and be prepared with their findings during the next class.

**Period Four:**

- Begin the lesson by pairing off number 1's and number 2's and having them share their findings.
- Once this has been completed, have one pair join another pair and have the pairs share their findings.
- Once this has been done have each foursome join another foursome and share their findings.
- This process will ensure that the students have reviewed this material a few times and have heard other responses which should help develop a detailed answer to all the questions.
- Once this has been done, hold a plenary session and answer any outstanding issues or questions that may exist. A teacher-led series of questions could be asked to establish a relative knowledge of the material and an understanding of its inter-relatedness.

## Evaluations

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The two sets of group work should be handed in for evaluation. In the second group activity both their initial answers and their final octet group work could be handed in.

## Other Related Activities

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1. The students could access the Bank of Canada website and read about Gross Domestic Product – <https://www.statcan.gc.ca/eng/nea/about/gdp>
2. The students could read about runaway inflation in Module 5 entitled “A Little Bit of History.” The students could read about why Canada’s inflation rate has been set at 2% – [http://www.bankofcanada.ca/wp-content/uploads/2010/11/why\\_canada\\_inflation\\_target.pdf](http://www.bankofcanada.ca/wp-content/uploads/2010/11/why_canada_inflation_target.pdf)
3. The students could engage in any one of the many inflation games listed on the internet.

## On-line Links

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Consumer Price Index – Bank of Canada – [http://www.bankofcanada.ca/wp-content/uploads/2010/11/consumer\\_price\\_index.pdf](http://www.bankofcanada.ca/wp-content/uploads/2010/11/consumer_price_index.pdf)

Inflation and Price Stability – Bank of Canada – [http://www.bankofcanada.ca/wp-content/uploads/2010/11/inflation\\_price\\_stability.pdf](http://www.bankofcanada.ca/wp-content/uploads/2010/11/inflation_price_stability.pdf)

