Grades 11-12

Informational Text – Science, Mathematics, and

Technical Subjects

FedViews by the Federal Reserve Bank of San Francisco (2009)

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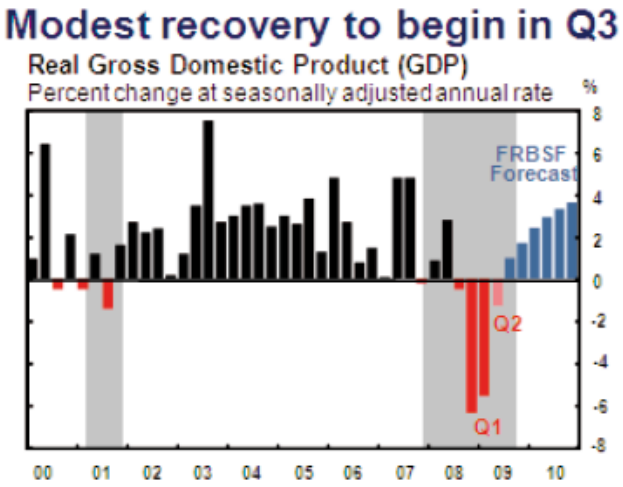
Mary C. Daly, vice president and director of the Center for the Study of Innovation and Productivity at the Federal Reserve Bank of San Francisco, states her views on the current economy and the outlook.

- Financial markets are improving, and the crisis mode that has characterized the past year is subsiding. The adverse feedback loop, in which losses by banks and other lenders lead to tighter credit availability, which then leads to lower spending by households and businesses, has begun to slow. As such, investors' appetite for risk is returning, and some of the barriers to credit that have been constraining businesses and households are diminishing.

- Income from the federal fiscal stimulus, as well as some improvement in confidence, has helped stabilize consumer spending. Since consumer spending accounts for two-thirds of all economic activity, this is a key factor affecting our forecast of growth in the third quarter.

- The gradual nature of the recovery will put additional pressure on state and local budgets. Following a difficult 2009, especially in the West, most states began the 2010 fiscal year on July 1 with even larger budget gaps to solve.

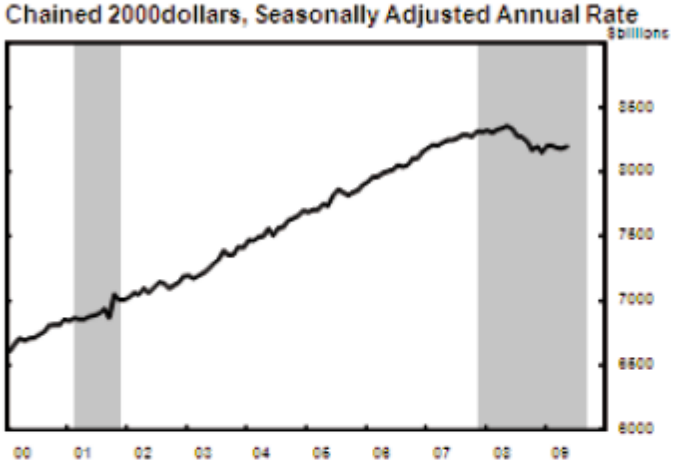
- Still, many remain worried that large fiscal deficits will eventually be inflationary. However, a look at the empirical link between fiscal deficits and inflation in the United States shows no correlation between the two. Indeed, during the 1980s, when the United States was running large deficits, inflation was coming down.



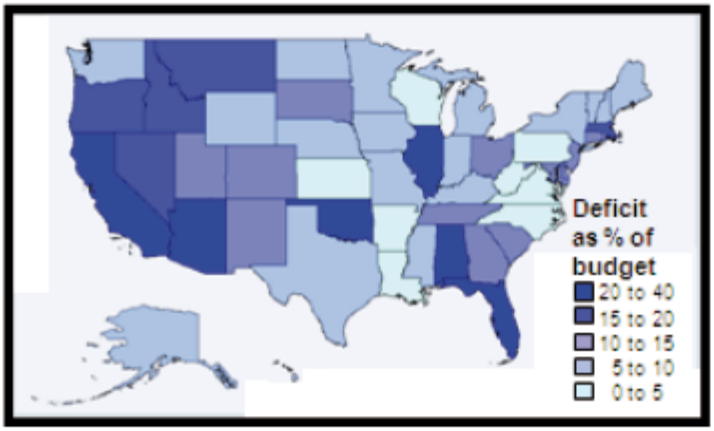
Consumers hanging on

Real Personal Consumption Expenditures

Chained 2000dollars, Seasonally Adjusted Annual Rate

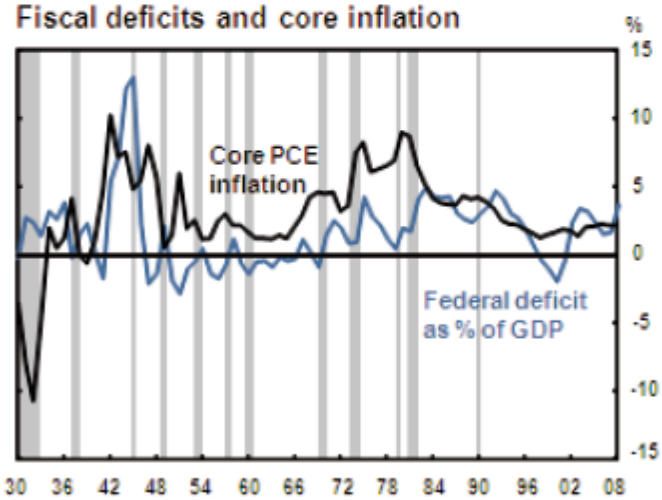


State budget gaps pervasive in 2009



No link between deficits and inflation

Fiscal deficits and core inflation



- Students *integrate* the *information* provided by Mary C. Daly, vice president at the Federal Reserve Bank of San Francisco, with the data presented *visually* in the *FedViews* report. In their analysis of these *sources of information presented in diverse formats*, students frame and *address a question* or *solve a problem* raised by their *evaluation* of the evidence. [RH.11-12.7]