

# The Practice of Central Banking<sup>1</sup>

## *Economy Studies Essential Lecture*

### Instructor's Guide

#### Economy Studies Essential Lectures

These teaching packs are designed for 90-minute (online or offline) sessions that can be added to existing courses. They help students become familiar with an important topic that is often neglected. At some universities lectures and sessions are typically longer than 90 minutes and at others shorter. Feel free to adjust the material to make it with your context and purpose.

#### The Practice of Central Banking with ECB Director Ulrich Bindseil

This teaching pack focuses on the practice and real-world activities of central banks. It assumes students have a grasp of basic macroeconomic concepts already, and is therefore most suitable to be used at the end of introductory macro courses, or in more advanced macro or monetary economics courses.

The central aim is to help students understand that central banking in the real world is a lot more complex than simply changing interest rates to mechanically ensure that resources are not under- or over-employed, as it is often presented. The content is focused on understanding the actual implementation of financial stability and monetary policy in practice.

This teaching package conveys to students the key elements of [Introduction to Central Banking](#) by ECB Director Ulrich Bindseil and his former student Alessio Fotia. This is done in an active and engaging way with a quiz and game within a 90-minute session.

If you are an educator and you are interested in receiving 10 possible exam questions and the correct answers to the quiz questions, send us an email at [economy\[dot\]studies\[at\]ourneweconomy\[dot\]nl](mailto:economy[dot]studies[at]ourneweconomy[dot]nl) and we will send them to you.

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## Lesson plan

Learning Objectives		
<ul style="list-style-type: none"> <li>• Understanding that central banking is multifaceted, uncertain and complex in the real-world.</li> <li>• Basic understanding of the different central bank policy types and instruments.</li> <li>• Being able to relate monetary and macroeconomic theories to real-world policy making</li> <li>• Being able to reason and argue about central bank decision making.</li> </ul>		
Transferable Skills Developed		
<ul style="list-style-type: none"> <li>• Real-world knowledge and understanding.</li> <li>• Formulating policy advice in an articulate manner.</li> <li>• Engaging with the opinions of others in a respectful fashion.</li> </ul>		
Prior to session		
Readings: <ul style="list-style-type: none"> <li>• For introductory courses: <a href="#">The Practice of Central Banking (Summary)</a></li> <li>• For advanced courses: <a href="#">The Practice of Central Banking (Full Text)</a></li> </ul>		
Plan of Activities		
Duration	Instructor Activity	Student Activity
<b>5 min</b>	Briefly introduce the topic of the lecture and its learning objectives, and let students discuss what they already know about central banks in groups of 2-3 (with the people sitting next to each other or in online breakout rooms) (slides 1-4).	Actively discuss the questions with each other, respectfully listen to others, make sure everyone gets to speak and contribute, and make notes of key takeaways from the discussion.
<b>10 min</b>	Introduce the basics of central banking to students (slides 5-9).	Take notes. Ask questions if possible.
<b>10 min</b>	Explain the real-world exercise to students and let them do it in groups of 2-3 (slide 10).	Gather and discuss real-world information together.
<b>30 min</b>	Explain the central bank policies to students (slides 11-24).	Take notes. Ask questions if possible.

<b>15 min</b>	Do the quiz with the students, either with online tool, such as Mentimeter, or just with the PowerPoint slides (slides 25-35).	Answer the quiz questions.
<b>15 min</b>	Explain the game to the students and let them play it in groups of 2-3 (slides 36-41).	Play the game together.
<b>5 min</b>	Let the students reflect on what they have learned today in groups of 2-3 (slide 42).	Discuss together.
<b>Total: 90 min</b>		

## Student preparation work

Before the lecture, students should read either the [10-page summary](#) or [31-page full text](#) on The Practice of Central Banking depending on the level of the class.

## Opening of the lecture

The lecture briefly opens with introducing the topic, its relevance, and learning objectives, and asking students to activate their memories about what they have learned about central banks before. In this way, students are stimulated to connect what they learn in this lecture to what they previously learned, allowing for more effective learning.

## Introducing the basics

These slides introduce students to the basics and provide an overview of what is to come in the rest of the lecture. The goal with slides 5 and 6 is not to explain each policy type and instrument in detail but to give a rough recap on them as later slides explain them in more detail. Slides 7 to 9 are meant to give students a basic understanding of what central banks aim for and how debates and decision making around it policies typically looks like.

## Real-world exercise

To prepare students for their future work as professional economists, it can be very valuable to spend time on real-world knowledge. This not only motivates students by showing the material is not just abstract theory, it also enables them to connect and better apply concepts to the real-world. The goal of this exercise is to help them gain familiarity with their own central bank, its mandate, current policies and board members. The BIS website can be helpful for many countries: [Currency area overviews \(bis.org\)](https://www.bis.org/currencyarea/overviews). But finding the information independently can also be a good exercise for the students.

## Explaining central bank policies

Slides 11 to 24 form the core content for students to learn and together with the reading help students understand how central banking is done in practice. Based on the level and time available one can go in more or less detail with each of the policies. To activate and help students learn better one can let students ask questions or address their thought processes. For example, students might be surprised that so many lending between financial institutions goes on overnight, because that's not what happens in the real economy and thus it could be useful to briefly discuss this. And to illustrate relevance of the various technical matters, like collateral, one could give examples, such as that the ECB in 2015 stopped accepting Greek government bonds as collateral until another deal to implement fiscal budget cuts and austerity was reached, and that the interest rates on the Greek government bonds spiked.

## Quiz

The goal of the quiz is to make the often abstract and technical material come alive in a more playful manner. The quiz can be done making use of an online tool, such as Mentimeter, but can also just be done offline making use of the PowerPoint slides. The first 9 questions are recapping the material explained in the reading and slides before, helping students to remember them. The last question, however, asks students to be able to recognize which policy response belonged to which situation. This helps them to understand how the policies explained in abstract play out in real-world cases.

## Game

The game puts students in the position of central bank board members and asks them to contemplate together about what the best policy response is for scenario's. As in real life, there is often no clear and universally agreed upon best option. As such, the game intentionally has no good or bad answers, but instead requires students to discuss with each other what makes most sense. So while the quiz tests their knowledge directly, the game helps them develop more nuanced judgement making skills often required from professional economists.

To prevent the game from becoming overly complex, policy options related to unconventional credit operations and collateral are left out, as well as many more detailed varieties of all the policy options. Furthermore, only 4 variables are presented to think about, while in reality central banks are also looking at fiscal stimulus, investment, debt levels, business and consumer confidence, exchange rates, trade balances, labour force participation rates, asset and real estate prices, input prices and more. It can be valuable to point this out to them before they start with the game as such additional information might come up during discussions as it could legitimately play a role in what policy response might be desired.

To allow students to read the scenario and possible policy options, one can show them to PowerPoint or give them a (physical or digital) [handout](#) of them.

## Closing of the lecture

To close the lecture and stimulate effective learning, the lecture ends by going back to the discussion in the beginning about what students already knew about central banks. They are asked to reflect on what the main things were they learned in this lecture and how this relates to their previous understandings.