Appendix A: Instructor Instruction Sheet

Getting started:

Divide students into groups of four; hand out the student instruction and record keeping sheets and other materials. Have students read the instructions and read aloud the instructions given on pages 7-8 of the paper. Make sure students understand the instructions. Have students answer the preliminary questions in the record sheet and construct initial balance sheets for all group members. Review the balance sheets to ensure student understanding of them. Ask the questions on page 10 about purchasing power and make sure everyone understands that their purchasing power equals the number of gold coins they have.

1. **Round One: Depositor deposits their gold with Goldsmith**

   Read the instructions on page 11 aloud and address any questions. After students complete their transactions, ask the class about the deposit slips and guide them through the discussion outlined on pages 12 and 13. Introduce the concept of a bearer note and explain the benefits of this over a deposit slip. Have students update their balance sheets for all group members. Review their balance sheets to evaluate their understanding of them. Ask students to compute the backing ratio for the gold notes and make sure they understand that it presently is 100 percent.

2. **Round Two: Depositors purchase a good from a Merchant in another group**

   The goal of this round is to establish the gold notes as a medium of exchange. Read the instructions on page 15 aloud and address any questions. After students complete their transactions, ask Merchants what they accepted as payment. If enough Merchants accept gold notes, point out that the gold notes function as a medium of exchange. Have students update the balance sheets for all group members and guide them through the discussion outlined on pages 15-17. Make clear that, while Goldsmiths have created a new form of money (gold notes), they have not created additional money.

3. **Round Three: Borrowers borrow from Goldsmiths**

   Borrowers and Goldsmiths must decide on the terms of a loan. Read the instructions on page 17 aloud and address any questions. After students complete their transactions, ask students to update the balance sheets for all group members and to record the details of the loan agreement. Review their balance sheets to make sure they are correct. Guide students through the discussion outlined on pages 18-20 about the change in total purchasing power associated with the loan to the Borrower. Emphasize the link between lending and new money creation. Ask students to compute the new backing ratio for the gold notes and discuss how fractional reserves are necessary for money creation to occur.

4. **Round Four: Borrowers purchase a good from a Merchant in another group**

   Read the instructions on page 21 aloud and address any questions. Ask students to update their balance sheets after this transaction and proceed to the final debriefing and discussion.

5. **Final Debriefing and Discussion:**

   The debriefing and discussion help cement the understanding of how each interaction relates to money creation and establish the links to modern banks. Ask the questions on page 22 about the evolution of purchasing power through the different interactions. Ask the next set of questions about the Goldsmith's ability to make additional loans. Then ask the more general questions about what determines a Goldsmith's ability to make new loans and create new money. Make sure students understand that the answer is a reduction in the backing ratio or maintenance of the backing ratio coupled with an increase in gold deposits. Ask the next set of questions about what determines a modern bank's ability to make new loans and create new money.