

Fiscal + Monetary Policy Research

Background: Prior to the Great Depression in the 1930's, economists largely subscribed to the philosophy of classical economics, which held that during times of contraction and recession, economies would be able to correct themselves without government interventions. For the most part, this philosophy was widely accepted from the time of Adam Smith all the way to the Great Depression. However, out of the devastation of the Great Depression, two conflicting theories about fiscal and monetary policy emerged: **Keynesian economics** and **monetarism**.

Fiscal vs. Monetary Policy: Fiscal policy is that which is controlled by the federal government, mainly in the form of taxing and spending to help stimulate an economy. Monetary policy is controlled by the Federal Reserve System (the Fed), which controls the money supply and interest rates in the United States.

Keynesian Economics: Developed by the economist John Maynard Keynes in 1936, Keynesian economics became popular with FDR and Americans during the Great Depression. His ideas held that the federal government could use fiscal policy to end a recession or contraction. He believed that the problem during the Great Depression was a severe decrease in demand. To combat that, the government could cut taxes (giving people more money to spend in the economy) or increase government spending. To increase government spending without raising taxes, the government could borrow money instead (deficit spending). If lowering taxes and raising spending was not enough, Keynes believed that the government could also create policies to increase consumer demand.

Monetarism: Milton Friedman also lived through the Great Depression. However, his philosophy was quite different; rather than having the federal government spend money, Friedman believed that the Federal Reserve (the Fed) should use monetary policy to help the economy recover, mostly via manipulating interest rates and controlling the money supply. His ideas became the foundation of monetarism.

Below please describe the difference between Keynesian economics and monetarism.

Research: To learn more about how the federal government and the Fed use monetary and fiscal policy, research the terms in the table below. Write the definitions in your own words.

Term	Who uses the tool? Gov't or the Fed?	Definition & Explanation
Expansionary Fiscal Policy		
Contractionary Fiscal Policy		

Demand-Side Economics		
Supply Side Economics		
Laffer Curve		
Automatic Stabilizers		
Easy-Money Policy		
Tight-Money Policy		
Open-Market Operations		
Reserve Requirement		
The Discount Rate		
Federal Funds Rate		

Based on your research, which tools do you think are the most effective or useful? Explain.

Presidential Policy Research

Directions: The debate between Keynesian economics and monetarism has persisted since the Great Depression. Each president has adopted one viewpoint or the other. Your mission is to find one president who has adopted Keynesian economic policy and one president who has favored monetarism (and influence of the Fed). Research the policies and tools each enacted (see table on previous research assignment). Then measure the success of each president in influencing the economy using GDP, inflation rates, and the unemployment rates in the years following their policy enactment, keeping in mind that policies often take several years to be effective. Then, you will evaluate the effectiveness of this policy. All presidents chosen must be from the 1930s to present.

President #1: Keynesian Policies

President Name	
Policies and Tools Enacted (please name and describe)	
Describe GDP in Years Following Enactment	
Describe Inflation Rate in Years Following Enactment	
Describe Unemployment Rate in Years Following Enactment	
Rate the Effectiveness of the President's Policies/Tools	
Explanation for Your Rating	

President #2: Monetarism

President Name	
Policies and Tools Enacted (please name and describe)	
Describe GDP in Years Following Enactment	
Describe Inflation Rate in Years Following Enactment	
Describe Unemployment Rate in Years Following Enactment	
Rate the Effectiveness of the President's Policies/Tools	
Explanation for Your Rating	

1. Which president was more successful? Why do you think that is?

2. Which policy do you think is the most effective? Explain.