Name:

Fiscal and Monetary Policy Introduction

How monetary and fiscal policy effect GDP

1) If GDP is down, an increase in ***what*** will cause it to go up?

2) What are the four components that make up the GDP?

3) If C is down, what can increase to off-set the decrease in C?

During a recession, the government can "help" raise GDP by ______________________________

- We call this Fiscal Policy.

Fiscal Policy - ____

- The government can also stimulate ________________________ How?

Recession

If there is a recession, the government will either ____________________ (↑G) or make consumers spend money (↓T)

Policy	Problem	Tool	Tool	GDP
Fiscal Policy	Recession	↑ Gov. Spending	↓ Taxes	↑ G → ↑ GDP ↓T →↑C →↑ GDP

Inflation

If the economy is growing too fast, causing the price level, inflation, to increase…
Then the government can help? How?

If there is inflation, the government will either _________________________ (↓G) or make consumers spend less money (↑T)

Policy	Problem	Tool	Tool	GDP
Fiscal Policy	Inflation	↓Gov. Spending	↑Taxes	↓ G → ↓ GDP ↑T →↓C →↓ GDP

Monetary Policy

- The "Fed" is an independent governmental organization that has control of the ______________________
- They help maintain economic growth (increases in GDP) and control inflation

Monetary policy ____

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3 Tools of Monetary Policy

1) Reserve Requirement-
   - ____
     ____
2) Discount Rate
   - ____
     ____
3) Buying and Selling bonds
   - ____
     ____

- Buying Bonds-
  - ____ Increases the money supply and then you spend it, and increase C, increasing GDP
- Selling Bonds-
  - ____ Decreases the money supply and then you have less money to spend, and decrease C, decreasing GDP
    - Way to help you remember it.
    - Buy Bonds, Bigger Bucks
    - Sell Bonds, Smaller Bucks

Recession

- If there is a recession, then the FED will increase the ____________________________ to stimulate spending among consumers and businesses

Policy	Problem	Tool	Tool	Tool	GDP
Monetary Policy	Recession	↓ RR	↓ DR	Buy Bonds	↑ Money Supply → ↑ Spending →↑ GDP

- If there is inflation, then the FED will decrease the ____________________________ to stop spending among consumers and businesses.

Policy	Problem	Tool	Tool	Tool	GDP
Monetary Policy	Inflation	↑ RR	↑ DR	Sell Bonds	↓ Money Supply → ↓Spending →↓ GDP

- Explain the difference between fiscal policy and monetary policy.

- What monetary policy tools are used during a recession?

- What fiscal policy tools are used during inflation?