**Fiscal and Monetary policy**

**Fiscal policy**

* + The federal government’s use of \_\_\_\_\_\_\_\_\_\_\_\_\_\_and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to keep the economy stable**.**
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Fiscal policies that try to increase output are known as expansionary policies. (Increase Government Spending, Cutting Taxes)
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Fiscal policies intended to decrease output are called contractionary policies. (Decrease Government Spending, Raising Taxes)

**Monetary Policy**

* Monetary policy is one of the ways that the U.S. government attempts to control the economy.
  + If the money supply grows too fast, the rate of inflation will increase; if the growth of the money supply is slowed too much, then economic growth may also slow.
* Monetary Policy Tools
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - the interest rate that banks pay to borrow money   
      from the Fed.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Open market operations are the buying and selling of government securities to alter the money supply.

**How Banks Create Money**

* Assume that you have deposited $1,000 dollars in your checking account. The bank doesn’t keep all of your money, but rather lends out some of it to businesses and other people.
* The portion of your original $1,000 that the bank needs to keep on hand, or not loan out, is called **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** (RRR). The RRR is set by the Fed.
* As the bank lends a portion of your money to businesses and consumers, they too may deposit some of it. Banks then continue to lend out portions of that money, although you still have $1,000 in your checking account. Hence, more money enters circulation.
* The federal government and the Federal Reserve both have tools to influence the nation’s economy.

**Keynesian Economics**

* + A form of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_that encourages government action to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and decrease demand and output
* Demand-side Economics
  + The idea that government \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ help an economy by raising demand
* John Maynard Keynes
  + Developed this theory after the Great Depression. His ultimate goal was to tell economists and politicians how to get out of and avoid economic crisis
* Keynes believe that 2 things needed to happen to end the Great Depression
  + 1. Consumers need to spend more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - * Keynes thought that the spender should be the government. According to his theory, the government should buy goods and services. This would encourage production and increase employment.
  + 2. Businesses need to increase output
* As a result of this theory, people go back to work and then spend the money they make on goods and services – this increases production.
* Fiscal Policy
  + The use of government spending to influence the economy
  + Fiscal policy can be used to fight two macroeconomic problems, according to Keynes

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_-(decline in economic prosperity)/Depression (long recession)

* + - Government should increase spending OR government should decrease taxes
    - Contractionary Policy
  + 2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- (general increase in prices)
    - Government should decrease spending OR government should increase taxes

**Supply-side Economics**

* + A school of economics that believes that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can help an economy by raising supply
    - Those that agree with supply-side economics believe that taxes have strong negative influences on economic output
* Trickledown effect
  + Investing money in companies and giving them tax breaks will benefit the economy. Eventually individuals (consumers) will experience the effects thus trickle down to the households

**The Federal Reserve and government economic policy**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Policy (Tight $$) – during inflation
  + 1. Increase \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + 2. Increase \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ($$ banks must have in reserve)
  + 3. Increase \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + 4. Decrease government \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Policy (Easy or Loose $$) – during recession/depression
  + 1. decrease \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (easy to buy)
  + 2. decrease \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + 3. decrease \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (banks have more $$ to loan)
  + 4. increase government \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_