

# 12.2

## **Fiscal & Monetary Policy**



## **As a Young Economist, I will be able to...**

- Explain the major responsibilities of the Federal Government for domestic economic policy.
- Describe the overall goals of the Federal Government's actions in the economy.
- Explain how government fiscal policy influences the economy at the national level.
- Explain how government monetary policy influences the economy at the national level.

# **Federal Government & Domestic Economy**

**Our free enterprise system fosters competition & entrepreneurship**

**The Federal Government supports by trying to ensure fairness in the market place**

**The Executive and legislative branches will set policy for the nation to follow.**

**Nation must balance the call for regulation & demand**

The background of the entire slide is a stylized, painterly representation of the United States flag. It features a field of white stars on a blue background in the upper left, and horizontal stripes of red and white in the lower right. The colors are muted and the texture is soft, giving it an artistic, almost watercolor-like appearance.

# **Federal Reserve System**

**The Fed was created in 1913 to serve as the central banking system for the United States**

**Mainly, it adjusts the federal funds rate & creates interest rates to contract or expand the amount of money in circulation**

**Lowering interest rates makes money less expensive to borrow so it expands the economy**

**Raising the rates makes it more expensive so it will contract the economy**



The background of the entire slide is a stylized, painterly representation of the United States flag. It features large, soft-edged stars in white and yellow against a blue and grey background, with broad, flowing stripes in red, white, and blue. The overall effect is patriotic and formal.

# **Key Regulatory Agency**

**Securities & Exchange Commission regulates the economy**

**Run by commissioners appointed by the President, as well as a chairperson**

**Oversees the nation's stock markets & stops insider trading**

**The SEC also ensures that publicly traded companies disclose their finances**

The background of the entire slide is a close-up, slightly blurred image of the American flag, showing the stars and stripes in warm, golden tones.

# **Department of Labor**

**Provides protections for the basic rights of workers, fairness, & safety in the workplace**

**Example: OSHA oversees safety conditions in the workplace & will place fines or shut companies down if they don't meet them**

**Some feel the regulations provided keep the workers safe**

**Others feel like business is overburdened it interrupts free enterprise.**

# Key Goals for the Economy

The Presidents career is vital based on the health of the economy Some goals are...

1. To have a healthy **gross domestic product**-total value of all final goods & services produced in a country each year

2. To have full employment & enough jobs for the country

3. Price stability & the watching of...

**Inflation**- general increase in prices throughout the economy

**Deflation**- A general decrease in prices



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# How Fiscal Policy Influences Economy

**Recession-** When there is an absence of growth & the economy shrinks

**Fiscal Policy-** Major tool with which both the executive & legislative branches of the Federal Government seek to achieve broad economic goals

**Policymakers have to weigh the pros & cons of what taxing will do to the overall economy**

**General Rule! An increase in government expenditures means heightened economic activity, spending cuts dampen them**



# Other Uses of Fiscal Policy

**John Maynard Keynes-** Economist who advocated increasing government spending & a decrease in taxes to help economy

**Also used to slow inflation such as tax increases or government spending cuts**

**Fiscal Policy does take time to go into effect & some tax cuts do little to help/hurt economy**

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# How Monetary Policy Influences Economy

**Monetary Policy-** Money supply in circulation & the availability of credit in economy

The Fed functions as a national central bank & it oversees money panics.

**Open Market Operations-** Process that involves the buying or selling of government securities from & to the nations banks

Such as the selling of government bonds!

# Reserve Requirements

The background of the entire slide is a close-up, slightly blurred image of the American flag, showing the stars and stripes in warm, golden tones.

**Reserve Requirement-** Amount of money that The Fed determines banks must keep to reserve in their vaults with one of 12 Federal Reserve Banks

They cannot be used for loans & are to protect against sudden demand for funds

**Discount Rate-** Rate of interest a bank must pay when it borrows money from a Federal Reserve Bank

**Interest-** Cost borrows incur & must repay in order to borrow money