

THE FEDERAL RESERVE BANK OF ATLANTA

Fiscal & Monetary Policy

How do policymakers stabilize the economy?

MACROECONOMICS

Fiscal and Monetary Policy Infographic Activities

Since the Great Depression, US policymakers have worked to use the correct mix of fiscal and monetary policy to achieve stable economic growth. This infographic defines fiscal and monetary policy and highlights their key differences. It also illustrates the common goals of each policy: to influence and stabilize the economy by promoting price stability and maximum employment.

Activity 1

Refer to the infographic poster (bit.ly/frba-fiscal-monetary) to answer the following questions:

1. Define fiscal policy. Define monetary policy.
2. Who is responsible for fiscal policy?
3. Who is responsible for monetary policy?
4. What are the actions used to implement fiscal policy?
5. What are the actions used to conduct monetary policy?
6. Explain the fiscal policy actions used to stimulate the economy during a recession. What is this type of fiscal policy called?
7. Explain the monetary policy actions used to stimulate the economy during a recession. What is this type of monetary policy called?
8. Explain the fiscal policy actions used to stabilize the economy in times of inflation. What is this type of fiscal policy called?
9. Explain the monetary policy actions used to stabilize the economy in times of inflation. What is this type of monetary policy called?
10. What are the common goals of both fiscal and monetary policy?



Activity 2

This activity connects fiscal and monetary policy actions to the real economy. Interpret the following headlines and scan the corresponding articles or op-eds to identify whether the topic relates to fiscal or monetary policy actions, then fill in the corresponding tables.

- Headline: “The Fed and the 2008 Financial Crisis”
Article: bit.ly/2008-Fed

What policy	What is policy goal?	Who conducts policy?	Write a brief description
Fiscal or monetary	Expansionary or contractionary	US Congress and president or Federal Reserve	Explain the tools or actions being used

- Headline: “Economy Will Suffer ‘Slowing Pains’ Said Necessary to Future National Prosperity”
Article: bit.ly/nixon-economy

What policy	What is policy goal?	Who conducts policy?	Write a brief description
Fiscal or monetary	Expansionary or contractionary	US Congress and president or Federal Reserve	Explain the tools or actions being used



3. Headline: “Powell Says Taming Inflation ‘absolutely essential,’ and a 50-basis point hike possible for May”

Article: bit.ly/powell-hike

What policy	What is policy goal?	Who conducts policy?	Write a brief description
Fiscal or monetary	Expansionary or contractionary	US Congress and president or Federal Reserve	Explain the tools or actions being used

4. Headline: “Recessions Hard for Presidents to Remedy”

Article: bit.ly/recessions-hard

What policy	What is policy goal?	Who conducts policy?	Write a brief description
Fiscal or monetary	Expansionary or contractionary	US Congress and president or Federal Reserve	Explain the tools or actions being used



5. Headline: "Who Beat Inflation?"

Op-ed: bit.ly/volcker-recession

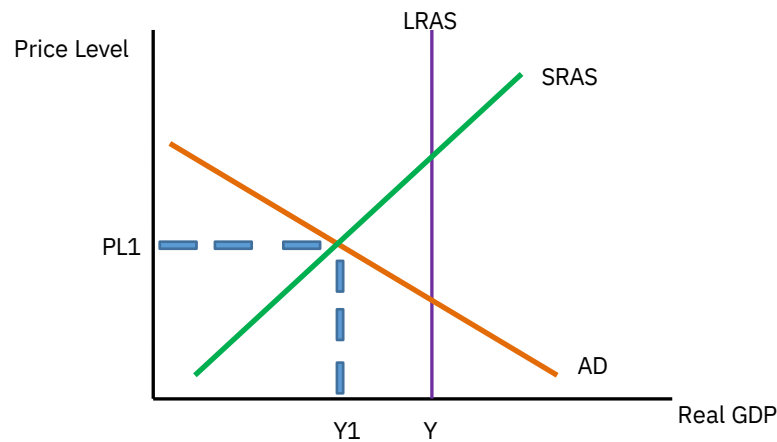
What policy	What is policy goal?	Who conducts policy?	Write a brief description
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Activity 3 (Advanced Students)

Read the following excerpts. Identify whether the policy action is fiscal or monetary and expansionary or contractionary. Draw and label the change that would occur on the AD/AS graph as a result of the policy action described in each excerpt. Identify what will happen as a result of the policy to the price level, employment, and real GDP.

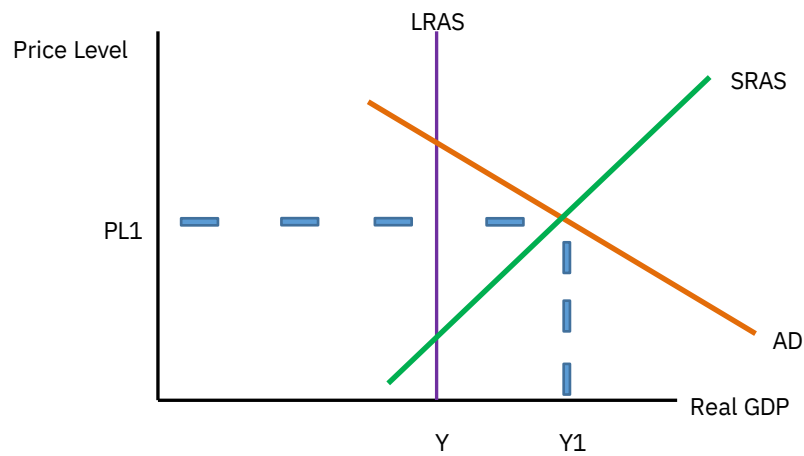
1. *Excerpt from FOMC Statement, released December 16, 2008*

“The Federal Open Market Committee decided today to establish a target range for the federal funds rate of 0 to ¼ percent. Since the Committee’s last meeting labor market conditions have deteriorated, and the available data indicate that consumer spending, business investment, and industrial production have declined. Financial markets remain quite strained and credit conditions tight. Overall, the outlook for economic activity has weakened further.



2. *Excerpt from FOMC Meeting Minutes, released February 6, 1981*

“Shortly after the November 18 meeting, incoming data indicated that the monetary aggregates were growing considerably faster than the rates consistent with the Committee’s objectives for the September-to-December period... These developments were associated with additional upward pressures on the federal funds rate and other short-term interest rates; in the first statement week after the meeting, the funds rate was at about or somewhat above the upper limit of the range of 13 to 17 percent specified by the Committee, compared with an average of 14 ½ percent in mid-November. In a telephone conference on November 26, the Committee raised the upper limit of the intermeeting range for the funds rate to 18 percent.”



3. *Excerpt from Public Law 110-85 of the 110th Congress, signed into law by President George W. Bush on February 13, 2008*

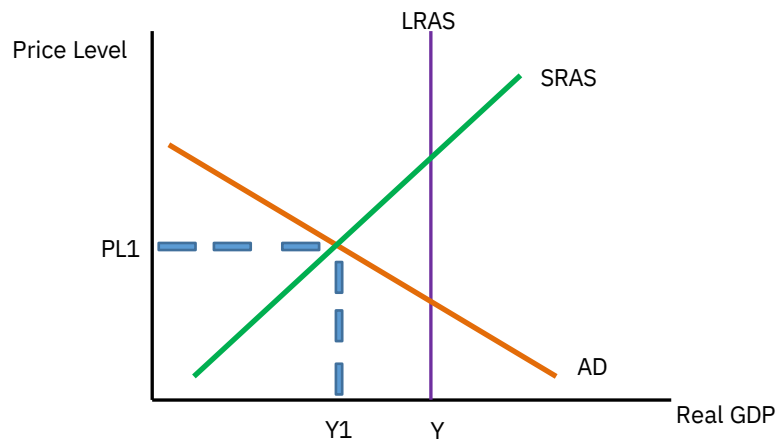
“To provide economic stimulus through recovery rebates to individuals, incentives for business investment, and an increase in conforming and FHA loan limits. Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

Title I – Recovery Rebates and Incentives for Business Investment

... Sec. 101. 2008 recovery rebates for individuals.

Sec. 102. Temporary increase in limitations on expensing of certain depreciable business assets

Sec. 103. Special allowance for certain property acquired during 2008.”





4. Excerpt from President Jimmy Carter's televised speech, delivered October 24, 1978

“Good evening. I want to have a frank talk with you tonight about our most serious domestic problem. That problem is inflation. Inflation can threaten all the economic gains we’ve made, and it can stand in the way of what we want to achieve in the future.

This has been a long-time threat. For the last 10 years, the annual inflation rate in the United States has averaged 6-1/2 percent. And during the three years before my inauguration, it had increased to an average of 8 percent.

If inflation gets worse, several things will happen. Your purchasing power will continue to decline, and most of the burden will fall on those who can least afford it. Our national prosperity will suffer. The value of our dollar will continue to fall in world trade.

...Inflation is obviously a serious problem. What is the solution?

...I will concentrate my efforts within the government. We know that government is not the only cause of inflation. But it is one of the causes, and government does set an example. Therefore, it must take the lead in fiscal restraint.

...We are going to hold down government spending, reduce the budget deficit, and eliminate government waste.

We will slash federal hiring and cut the federal work force.

We will eliminate needless regulations.

...And we will oppose any further reduction in federal income taxes until we have convincing prospects that inflation will be controlled.”

