

Macroeconomics Notes

Debt vs. Deficit, Monetary Policy, Fiscal Policy

SSEMA1 The student will illustrate the means by which economic activity is measured.

f. Describe the difference between the national debt and government deficits.

SSEMA2 The student will explain the role and functions of the Federal Reserve System.

a. Describe the organization of the Federal Reserve System.

b. Define monetary policy.

c. Describe how the Federal Reserve uses the tools of monetary policy to promote price stability, full employment, and economic growth.

SSEMA3 The student will explain how the government uses fiscal policy to promote price stability, full employment, and economic growth.

a. Define fiscal policy.

b. Explain the government's taxing and spending decisions.

- Debt vs. Deficit

- Questions to think about:

- What is the national debt?

- What caused the national debt?

- Where does the government get the money when it wants to spend more than it takes in?

- What is a budget deficit?

- What is a budget surplus?

- Budget Deficits and the National Debt

- Balanced budget: _____

- The federal budget is almost never _____.

- Budget surplus: _____

- Budget deficit: _____

- National Debt: _____

- The US government is viewed as _____ and _____ and can borrow money at a low _____

- DIFFERENCE between Deficits and Debt

- Deficit: the amount of money the government borrows for _____

- Debt: the _____ of all government borrow up to that time that has not been _____

- Federal Reserve

- Federal Reserve Act of 1913: _____

- Composed of _____ regional banks

- Could _____ to other banks in times of need

○ Structure of Federal Reserve System

- _____: the seven-member board that oversees the Federal Reserve System
 - Appointed for staggered _____ (keeps members from being pressured politically)
 - _____ picks a chair for a _____ from the board of governors
- Federal Reserve Districts: the _____ created by the Federal Reserve Act (one Federal Reserve _____ is located in each _____)
 - All _____ chartered banks are _____ to join the Fed
 - Member banks own _____ in the Fed and therefore gives the system of high degree of _____

○ Monetary Policy

- The actions of the Federal Reserve (aka _____) takes to influence the _____
- Tools of the FED
 - _____: the buying and selling of government securities (_____) to alter the money supply
 - Bond purchases: in order to _____ the money supply, the Federal Reserve Bank of New York _____ government securities on the open market
 - Bond sales: when the Fed _____ bonds, it takes _____
 - Discount Rate (Federal Reserve to Bank): _____
 - Federal Funds Rate (bank to bank): _____
 - Reserve Requirement: _____; set by the Federal Reserve
- If the economy needs a “boost” the Federal Reserve might:
 - _____ bonds
 - _____ interest rates
 - _____ reserve requirements

- If the economy needs to be “cooled off” the Federal Reserve might:
 - _____ bonds
 - _____ interest rates
 - _____ reserve requirements
- Fiscal Policy
 - Actions taken by the _____ to influence the _____
(_____)
 - Understanding Fiscal Policy
 - Fiscal policies are used to achieve economic _____, _____, and _____
 - _____: a plan for the federal government’s revenues and spending for the coming year
 - _____
 - _____
 - Fiscal year: a 12 month period that can begin on any date (_____ for the Federal government)
 - Expansionary policies: fiscal policies, _____, that encourage economic growth
 - Used to _____ in the economy
 - _____
 - Government spending _____
 - Contractionary policies: fiscal policies, _____, that reduce economic growth
 - Used when _____ to slow the growth of the economy (GDP)
 - _____
 - Leads to a _____ which leads to lower prices
 - Limits of Fiscal Policy
 - The government cannot _____ for entitlements
 - Difficult to know _____ (GDP)
 - Even more difficult to _____
 - If the economy needs a “boost” the federal government might:
 - _____ taxes
 - _____ spending

○ If the economy needs to be “cooled off” the federal government might:

- _____ taxes
- _____ spending

• Fiscal and Monetary Policy Tools

	Monetary policy tools	Fiscal policy tools
Expansionary tools	1. 2.	1. 2. 3.
Contractionary tools	1. 2.	1. 2. 3.