

Fiscal Policy vs Monetary Policy

Cheat Sheet

Government Fiscal Policy	Government Fiscal Policy	Federal Reserve Monetary Policy	Federal Reserve Monetary Policy
Expansionary	Contractionary	Easy Money (Expansionary)	Tight Money (Contractionary)
<u>Problem</u> Recession Unemployment Slow Growth	<u>Problem</u> Inflation	<u>Problem</u> Recession Unemployment Slow Growth	<u>Problem</u> Inflation
Higher Domestic Interest Rates	Lower Domestic Interest Rates	Lower Domestic Interest Rates	Higher Domestic Interest Rates
Increased foreign demand for dollars	Decreased foreign demand for dollars	Decreased foreign demand for dollars	Increased foreign demand for dollars
Dollar Appreciates \$1=3	Dollar Depreciates \$1=2	Dollar Depreciates \$1=2	Dollar Appreciates \$1=3
Net exports decline Aggregate demand decreases partially offsetting the expansionary policy	Net exports increase Aggregate demand increases partially offsetting the contractionary policy	Net exports increase Aggregate demand increases strengthening the easy money policy	Net exports decline Aggregate demand decreases strengthening the tight money policy
		buys bonds lower discount rate lower reserve ratio	sells bonds increase discount rate increase reserve ratio
		increases excess reserves	decreases excess reserves
		money supply increases	money supply decreases
		interest rate falls	interest rate rises
		investment spending increases	investment spending decreases
		aggregate demand increases	aggregate demand decreases
		Real GDP rises by a multiple of the increase in investment	Inflation declines