APGOV **Name ________________________________**

Fiscal & Monetary Policy Overview

▪ "**Monetary Policy**": refers to what the _______________________________ ("the fed") does to influence the amount of _____________ and _____________________in the U.S. economy. In other words, monetary involves controlling the money supply.

What happens to money and credit affects interest rates (the cost of credit) and the performance of the U.S. economy. By implementing effective monetary policy, the Fed can maintain stable prices, thereby supporting conditions for ________________________________ and ____.

▪ **Two primary purposes:**

1) To _______________ or ____________________ total spending

2) To ______________ against ____________ or ___________________

Inflation- a ____ for goods and services in the economy (devaluation of the dollar)

Deflation- a _____________________ in the general level of prices

▪ Federal Reserve System:

-- Serves as _______________________ of United States

-- Has _________________________ and a __________________________________ appointed by the President for 14 year terms (so they're insulated from the political process)

-- Current Chairman of Federal Reserve: ___________________________________

Federal Open Market Committee (FOMC) is the _________________________________ of the Federal Reserve System, examines "economic indicators" prior to determining monetary policy. Economic indicators provide a "snapshot" of the economy's health. **Indicators include:**

_______________________________________ **(GDP):** The total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. The GDP report is released on the last day of each quarter and reflects the previous quarter.

____**(CPI):** Measures changes in the price level of consumer goods and services purchased by households. It also includes housing sales, electricity, food, and transportation. The annual percentage change in a CPI is used as a measure of inflation. The CPI is published monthly and is also called cost-of-living index.

____**:** Currently at 8.9% (as of April 2011)

How does the Federal Reserve control the money supply?

Open Market Operations: **(most important)**

-- __________________ and _______________________ of U.S. government securities (bonds)

-- When the Fed buys bonds it holds the securities and the former owners now have cash to spend → increases money supply. When the Fed sells bonds it takes in cash and individuals hold on to bonds (savings) → decreases money supply

Discount Rate

The ___________________________ the Fed charges member banks for loans. Deceasing this rate leads to member banks lowering rates to customers → increased borrowing and spending

Reserve Requirements (not frequently used)

The Fed sets what percentage of total deposits a bank must keep on hand. Lowing the requirement means the more money a bank can lend → increase in money supply

▪ Fiscal Policy:

While monetary policy is the government's control of the money supply and interests rates to stabilize the economy, fiscal policy is the use of __________________________________ and ________________________to influence the economy.

▪ **Federal Income Tax:**

-- Largest source of revenue: ________________. It's a progressive tax system. Paid by individuals and corporations

▪ **Social insurance taxes:** Employee contributions to the Social Security and Medicare systems.

▪ **Borrowing:** Deficit spending- requires bonds help by the American public, companies, and foreign entities.

▪ **Other taxes**: Excise taxes- on liquor, gas, etc…, Estate tax

▪ Where do our tax dollars go?

▪ **Entitlement Programs:** Social security & Medicare (_______________ of spending)

▪ **National Defense:** ________________ of total federal budget

▪ **National debt:** ______________ of the total budget goes to pay the interest on our national debt!

Total debt has increased over $500 billion each year since FY 2003, with increases of $1 trillion in FY2008 and $1.9 trillion in FY2009. Current National Debt = ____________________ (and counting)