

# Fiscal & Monetary Policy

How do policymakers stabilize the economy?

MACROECONOMICS

## Fiscal Policy

The spending and taxing policies used by Congress and the president

### WHO?



Congress



President

## Fiscal Policy Tools

Changes in government spending



Tax policy: Changes in tax rates and rules

## Monetary Policy

The tools used by the Federal Open Market Committee to influence the availability of credit and the money supply

### WHO?



- 7-Nonvoting members
- 4-Rotating votes-district presidents
- 1-New York Fed President
- 7-Board of Governors

## Monetary Policy Tools

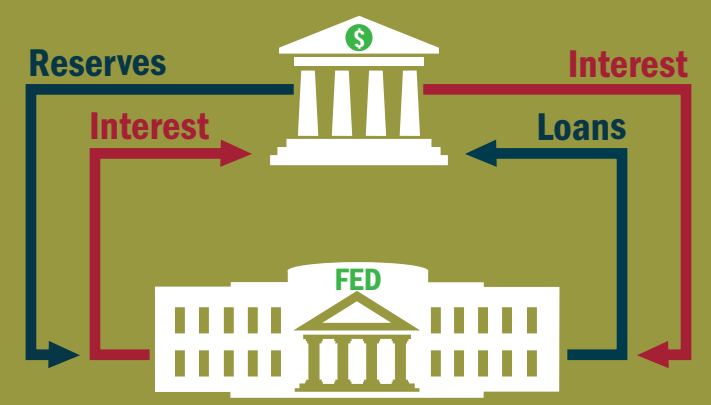
Open market operations Reserve requirement



Buy or sell



3% or 10% of demand deposits

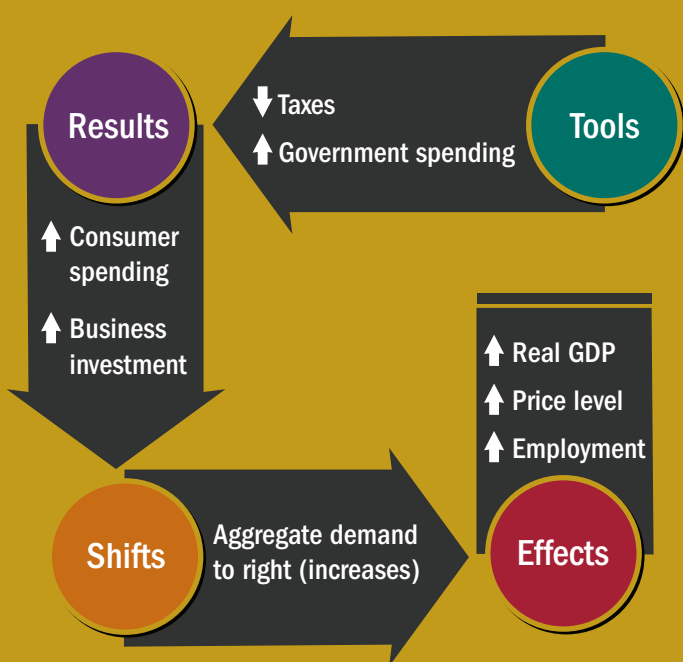


Interest on required and excess reserves

Discount rate

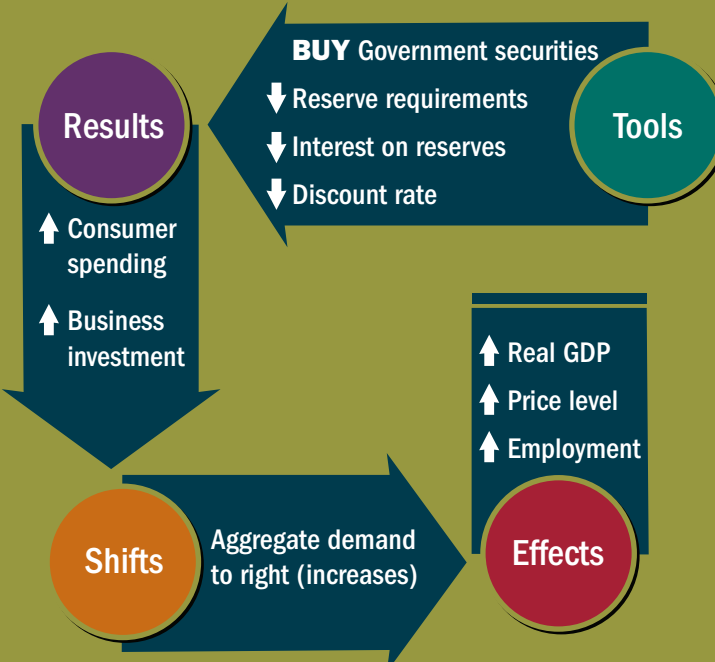
## Expansionary Fiscal Policy

Tools used to stimulate the economy during a recession: Lowering taxes or increasing government spending.



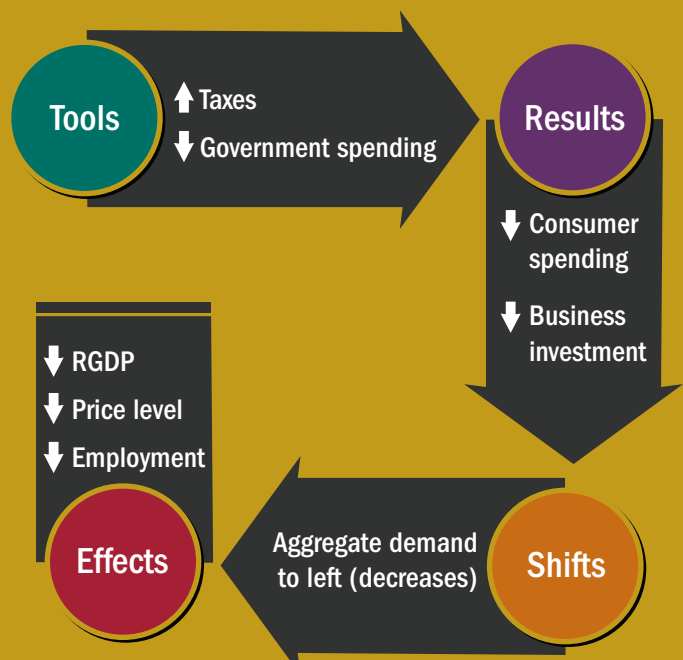
## Expansionary Monetary Policy

Tools used to stimulate the economy during a recession: Buying government securities. Lowering the reserve requirement. Lowering the discount rate. Lowering interest paid on required and excess reserves.



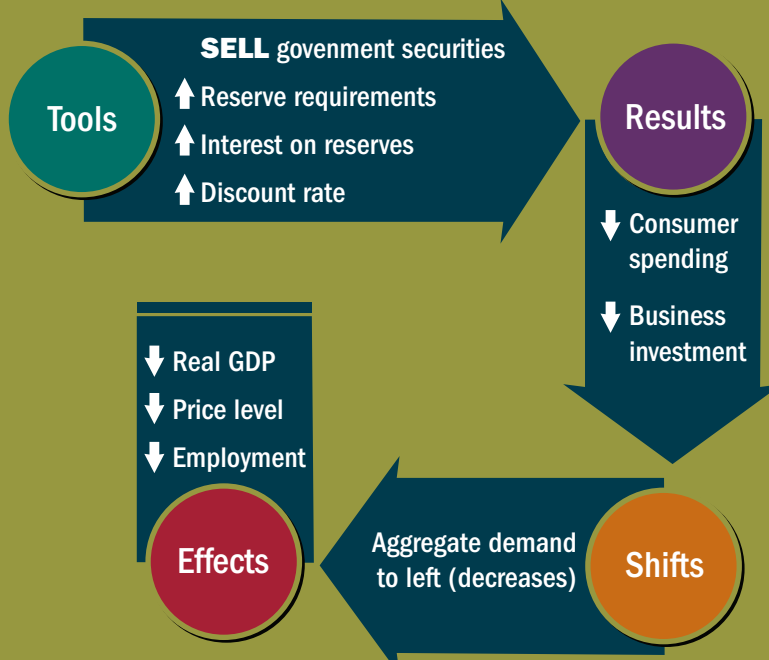
## Contractionary Fiscal Policy

Tools used to stabilize the economy in times of inflation: Increasing taxes or lowering spending.



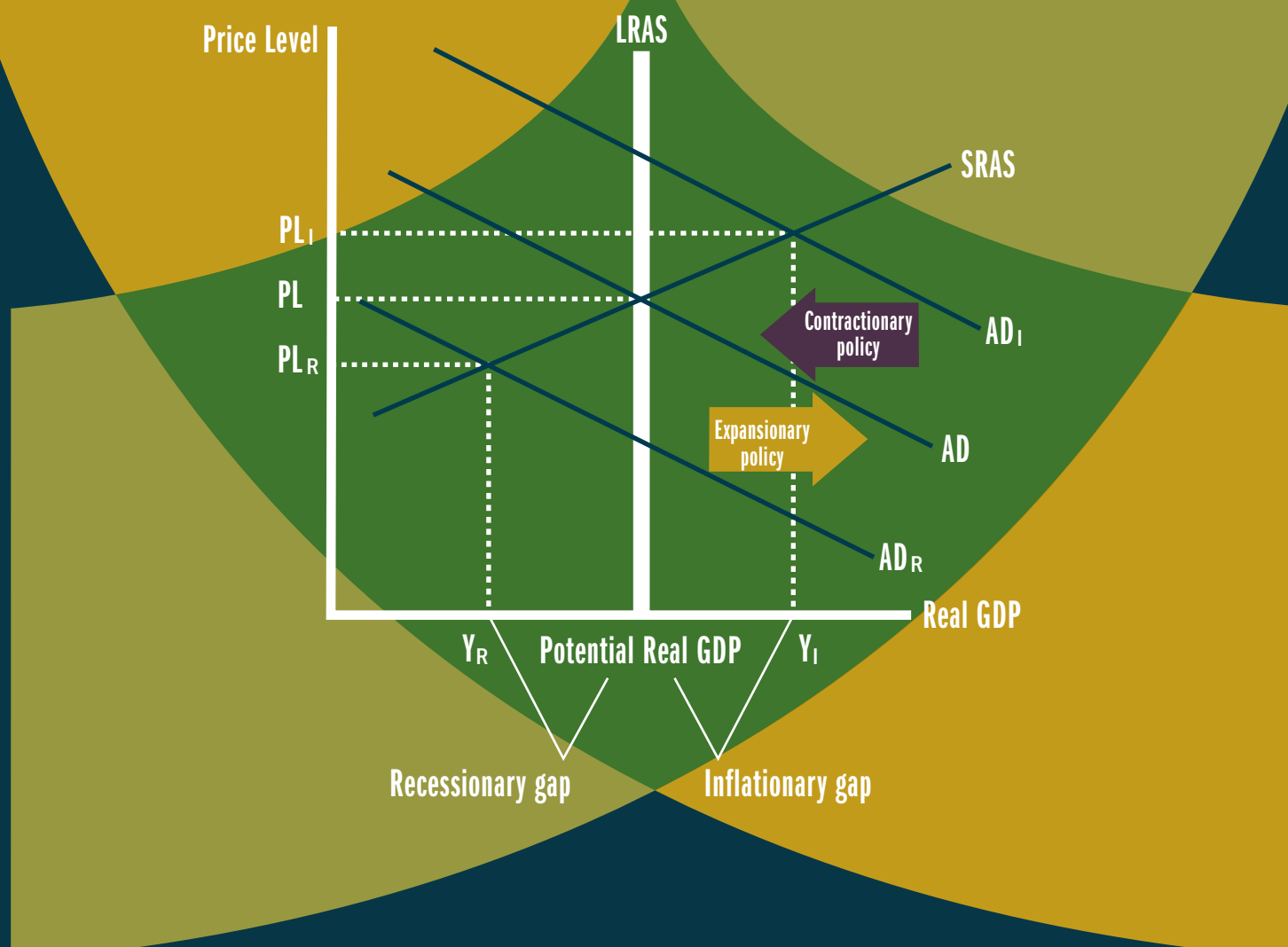
## Contractionary Monetary Policy

Tools used to stabilize the economy in times of inflation: Selling government securities. Increasing reserve requirements. Increasing the discount rate. Increasing the interest paid on required and excess reserves.



## Fiscal and Monetary Policy Goals

Influence and stabilize the economy. Promote price stability. Promote maximum sustainable employment.



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