

## **Study Guide for Unit Test of Stabilization: Fiscal and Monetary Policy**

### **Fiscal Policy**

What is fiscal policy?

Identifying Recessionary Gaps

Identifying Inflationary or Expansionary Gaps

Tax and spending for an expansionary fiscal policy

Tax and spending in a contractionary Fiscal Policy

Budget Surplus

Budget Deficit

National Debt

Automatic Stabilizers

Keynesian View of Fiscal Policy

Tax multiplier versus spending multiplier

The natural rate of unemployment

The Phillips Curve trade-off in short run

The Long run Phillips Curve

Critique of Keynesian fiscal policy –

- Time-lag problem
- Direct Crowding Out
- Indirect Crowding Out
- Rational Expectations

Stagflation

Laffer Curve

Supply Side Economics

Criticisms of Supply Side Economics

### **Monetary Policy**

M1

M2

M3

Functions of Money

Bank Required Reserves

Bank Excessive Reserves

Role Federal Reserve Bank

Structure of the Federal Reserve bank

Federal Open Market Committee (FOMC)

The various ways that the Fed can change the money supply

- Reserve Rate
- Discount Rate
- Fed Funds Rate
- Open Market Operations
- Impact of Buying Bonds on Money Supply
- Impact of Selling Bonds on Money Supply

Expansionary Monetary policy used during a contractionary gap

Contractionary Monetary policy used during an expansionary gap

The difference between the Money supply and the supply of loanable funds

The nominal interest rate versus the real interest rate

The Equation of Exchange

The velocity of money

Classical view of monetary policy

Keynesian economists view of monetary policy

Monetarist's philosophy and view of monetary policy

### **Graphs you need to know how to make**

- Graph expansionary or inflationary gap
- Graph recession or contractionary gap
- Graph the Money Market
- Graph Loanable Funds Market
- Graph the impact changes in money supply on macro model.
- Graph the impact of various fiscal policies on macro model
- Graph the short run and long run Phillips Curve

### **Formulas**

- The Keynesian spending multiplier
- The Keynesian tax multiplier
- Money multiplier formula applied to reserve requirement
- Equation of Exchange
- Calculating the real interest rate