



LECTURE ONE - PART THREE



Major Macroeconomic Policy Tools

- In dealing with problems such as inflation and unemployment, the Federal government has a number of policy tools at its disposal.
- The two most important:
 - Fiscal policy
 - Monetary policy

Fiscal Policy Tools

- To stimulate the economy:
 - Increased government spending
 - Tax cuts
- To contract the economy to fight inflation:
 - Decreased government spending
 - Tax hikes

Fiscal Policy Summarized

- Increased government spending
- Tax cuts



Stimulate the economy to fight recession!

- Cut government spending
- Raise taxes



Contract economy to fight inflation!

Monetary Policy

- Increase the money supply



Stimulate the economy to fight recession!

- Decrease the money supply



Contract economy to fight inflation!

- Monetary and fiscal policy often used together.

Macro Policy a Double-edged Sword

- Good macroeconomic policies can create prosperity and growth.
- Bad macroeconomic policies can inflict great harm.
 - Example: Bad monetary policy helped trigger Great Depression of 1930s.



Macroeconomics From An Historical Perspective

- Outline the historical evolution of macroeconomic thinking.
- Show how new theories emerged to cope with new macroeconomic problems – like Keynesianism and Monetarism.
- See how macroeconomics continues to be an evolving science
- Learn how macroeconomics is relevant to much of what we do in our personal and professional lives.

The AS-AD Model

