

March 27

Fiscal Policy:

- Contractionary: gov. spending ↓, taxes ↑
- Expansionary: gov. spending ↑, taxes ↓

Monetary Policy:

- Contractionary: M1 ↓, Interest rates ↑
- Expansionary: M1 ↑, Interest rates ↓

Inflation target: 2%

$$R_t - \bar{r} = \bar{m}(\pi_t - \bar{\pi})$$

positive constant inflation target

$$\pi_t > \bar{\pi} \rightarrow R_t > \bar{r}$$

$$\pi_t < \bar{\pi} \rightarrow R_t < \bar{r}$$

\bar{m} represents the hawkishness of the central bank

\bar{m} high → central bank raises rates quickly if inflation goes up

\bar{m} low → bank raises rates slowly