

R18 Monetary and Fiscal Policy

Introduction to monetary and fiscal policy

Monetary policy

- Money creation process 描述
- Fisher effect $R_{Nom} \approx R_{Real} + E[I]$ 描述
- Objectives of central banks
 - maintain price stability
 - maintain exchange rate stability
 - prompt economic growth
 - achieve full employment
 - moderate long-term interest rate
- Tools of the central bank
 - Policy rate
 - Official interest rate
 - Base rate
 - Official refinancing rate
 - Fed fund rate
 - Reserve requirement
 - Open market operations
- Neutral interest rate 分类
- Limitations of monetary policy
 - Long-term rates may not rise and fall with short-term rates
 - Liquidity trap

Fiscal policy

- 工具
 - Spending Tools
 - Transfer payment
 - Current spending
 - Capital spending
 - Revenue Tools
 - Direct taxes
 - Indirect taxes
- Objectives of fiscal policy
 - Impacting economic activities and increasing demand
 - Reallocating resources across economic sectors
 - Redistributing wealth among different population classes
- 判断
 - Ricardian Equivalence
 - Debt ratio
- 限制
 - Crowding-out effect
 - Time lag
 - recognition lag
 - action lag
 - impact lag
- 乘数
 - $\bullet \text{ Fiscal multiplier} = \frac{1}{1-MPC(1-t)} = \frac{1}{1-b \times (1-t)}$

The size of a national debt relative to GDP

- 分类
 - Ricardian Equivalence
 - Debt ratio: Aggregate debt to GDP

Interaction of monetary and fiscal policy

不同组合

Monetary policy	Fiscal policy	Interest rate	Output	Private spending	Public spending
Tight	Tight	higher	lower	lower	lower
Easy	Easy	lower	higher	higher	higher
Tight	Easy	higher	higher	lower	higher
Easy	Tight	lower	varies	higher	lower