Government and the economy

* Public policy is government policies backed by rewards and punishments
  + Based on preferences of people
* Why is government involved in the economy
  + Sets the rules for exchange
  + Defines property rights
  + Developing common currency
  + And enforcing contracts
* Government plays important roles in
  + Managing the economy
  + Protecting individual property
  + Regulating competition
* Different views
  + Laissez-faire – minimal involvement
  + Keynesians – should stimulate economy thought tax and spending policies
  + Monetarists – control inflation
* Functions of government
  + Establish a framework
  + Promote economic well being
  + Regulate market activity
  + Organize social service
* The framework state
  + Political institutions embody society’s values
  + Establish framework for the economy and markets
* The promotional state
  + Uses authority to enhance the nation’s economy
  + Policies can selectively aid the economy
* Regulatory state
  + Can outlaw unfair markets practices and controversial industries
  + Preserve a competitive economy
  + Regulate products and production processes
* Monetary policy
  + Regulate economy through manipulation of supply of money and credit
  + Use the federal reserve system of 12 banks
* Fed policy tools
  + Affect monetary policy through interest rates and selling government securities
* Fiscal policy
  + Governments user of taxing and spending to affect the economy

EVERYTHING BEFORE FISCAL POLICY NEEDS TO BE STUDIED

* Congress has fiscal policy power
* Congress has created the Fed so there is technically managed monetary policy
* Presidents lack formal powers over economy, however he has delegated powers from congress