**The Fed and Monetary Policy**

*Analysis and Comparison to Fiscal Policy*

**Your Name**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Step 1:** Analyze each scenario. Answer the questions in complete sentences.

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| **Scenario A**  College graduates are moving back in with family in record numbers. They are waiting longer than previous generations to buy homes and start families. Data show downward trends in new home building, mortgage applications, and the birthrate. Multiple markets are complaining of falling demand. A national supplier of home goods permanently shut down. The media is calling babies born today part of the “baby bust generation.” Economists predict future school closings and labor shortages. | Would the Fed address the scenario with expansionary or contractionary policy? Explain.  The Fed would likely address this scenario with an expansionary policy. The scenario describes a decrease in demand, signaling a potential economic slowdown or recession. An expansionary policy aims to stimulate economic activity by encouraging borrowing and spending. |
| What is a specific monetary action the Fed might use in this scenario? Identify the tool and how the Fed would use it. Explain how this would address the scenario.  The Fed could lower the federal funds rate. This is the interest rate banks charge each other for overnight loans. By lowering this rate, the Fed makes it cheaper for banks to borrow money, which in turn encourages them to lower interest rates on loans to consumers and businesses. This can stimulate borrowing and investment, boosting demand and economic activity. |
| What is a specific fiscal action that Congress might use in this scenario?  Congress could implement tax cuts aimed at individuals and businesses. This would put more money in people's pockets, encouraging spending and stimulating demand. |

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| **Scenario B**  Reports of price increases for everyday goods begin to dominate the news. People are complaining that their wages and salaries are not keeping pace with the cost of living. Most people being interviewed have jobs, and the national unemployment rate is low. However, many commonly remark that they are looking for second jobs or jobs that pay more because basics like food and clothing cost them so much more than a year ago. | Would the Fed address the scenario with expansionary or contractionary policy? Explain.  The Fed would likely address this scenario with a contractionary policy. The scenario describes rising prices, indicating inflation. A contractionary policy aims to cool down the economy by making borrowing more expensive and discouraging spending. |
| What is a specific monetary action the Fed might use in this scenario? Identify the tool and how the Fed would use it. Explain how this would address the scenario.  The Fed  could raise the federal funds rate. This makes it more expensive for banks to borrow money, leading to higher interest rates on loans to consumers and businesses. This can discourage borrowing and spending, reducing demand and helping to curb inflation. |
| What is a specific fiscal action that Congress might use in this scenario?  Congress could decrease government spending. This reduces the amount of money flowing into the economy, which can help to cool down demand and curb inflation. |

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| **Scenario C**  The media report that an “epidemic of the jobless” has emerged. Major corporations and small businesses alike are laying off workers. People are out of work in record numbers and struggling to find jobs. Some admit that they have given up looking. Housing foreclosures are increasing, while banks say they lack the funds to approve new loan applications or to adjust existing loans. Requests for unemployment, housing, and nutrition assistance are at record highs. Charity organizations are not receiving enough donations to meet the growing need in their communities. Credit card companies say the average debt balance is climbing while repayments are falling behind. | Would the Fed address the scenario with expansionary or contractionary policy? Explain.  The Fed would likely address this scenario with an expansionary policy. The scenario describes high unemployment and a struggling economy, suggesting a recession. An expansionary policy aims to stimulate economic activity and create jobs. |
| What is a specific monetary action the Fed might use in this scenario? Identify the tool and how the Fed would use it. Explain how this would address the scenario.  The Fed could engage in open market operations by buying government securities from banks. This injects money into the banking system, increasing the amount of money banks have available to lend. This can encourage lending and investment, stimulating economic activity and creating jobs. |
| What is a specific fiscal action that Congress might use in this scenario?  Congress could increase government spending on infrastructure projects or unemployment benefits. This puts money directly into the economy, creating jobs and stimulating demand. |

**Step 2:** Which type of policy, fiscal or monetary, do you think is more effective in today's U.S. economy? Explain your perspective, referencing an event from within the past 10 years. Write at least one complete paragraph.

In today's U.S. economy, monetary policy is often seen as more effective and flexible than fiscal policy. This is largely because the Federal Reserve can act quickly and independently to adjust interest rates and implement other monetary tools. Fiscal policy, on the other hand, requires Congressional action, which can be slow and politically contentious. A prime example of this is the 2008 financial crisis. The Fed responded swiftly with aggressive monetary easing, including lowering interest rates to near zero and implementing quantitative easing. These actions helped to stabilize the financial system and prevent a deeper economic collapse. While Congress also passed a stimulus package, its impact was arguably less immediate and less significant than the Fed's actions. This highlights the relative agility and effectiveness of monetary policy in responding to economic shocks.

**Step 3:** Check and then submit your work.