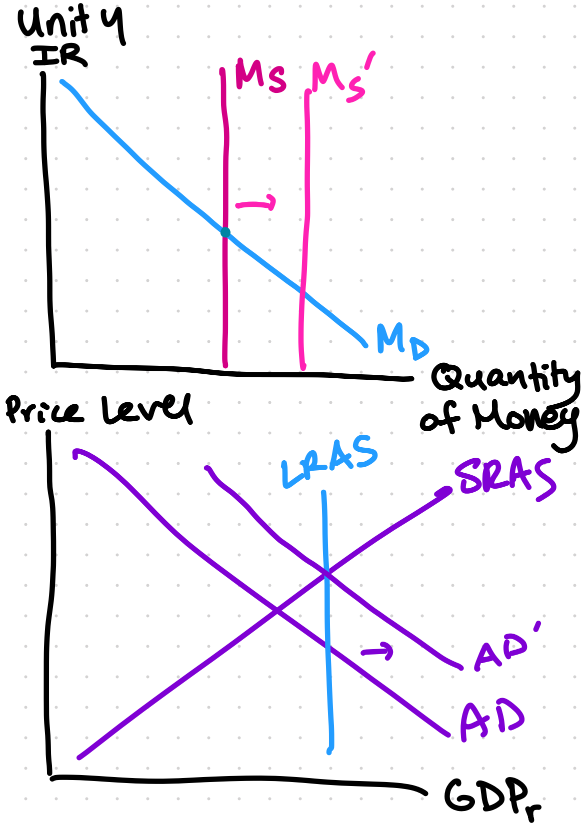


Fiscal Policy:

→ Taxes

→ Government Spending

Monetary Policy:

in scarce reserves

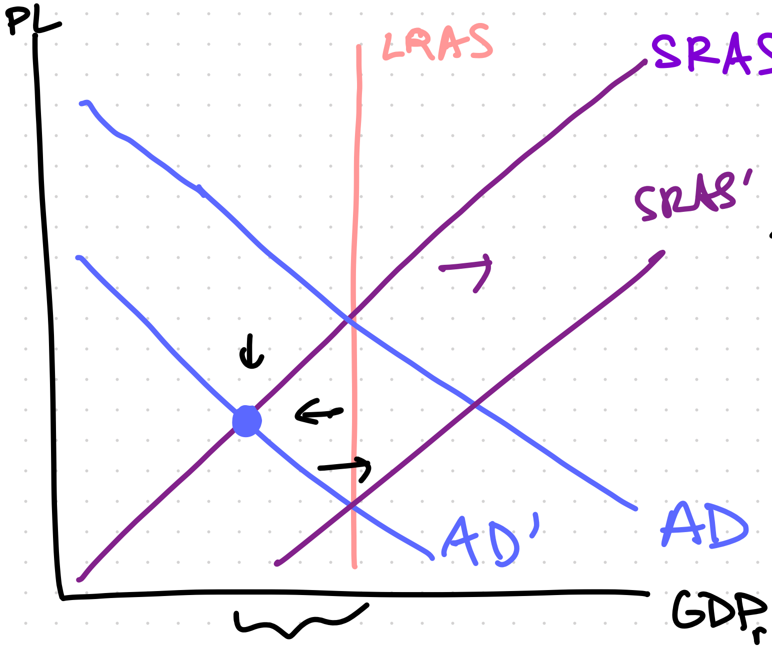
→ Open Market Ops

→ Discount Rate

→ Reserve Requirement

in ample reserves

→ change administered rates.



employment

unemployment ↑

fiscal policy

→ tax
→ government spending

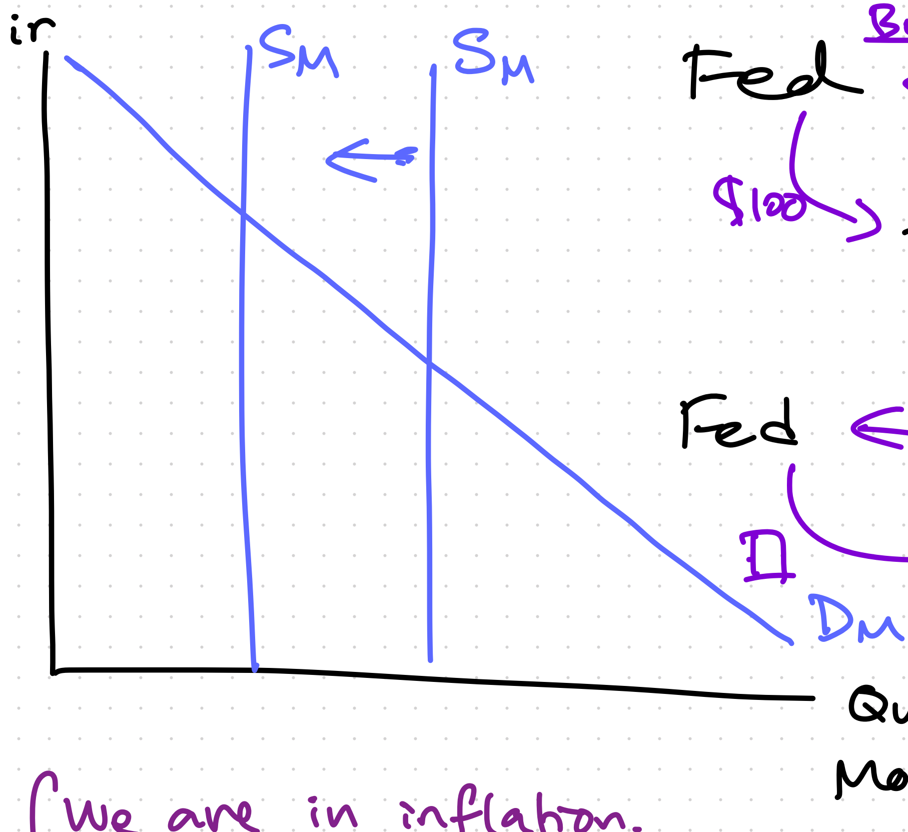
GDP ~ employment

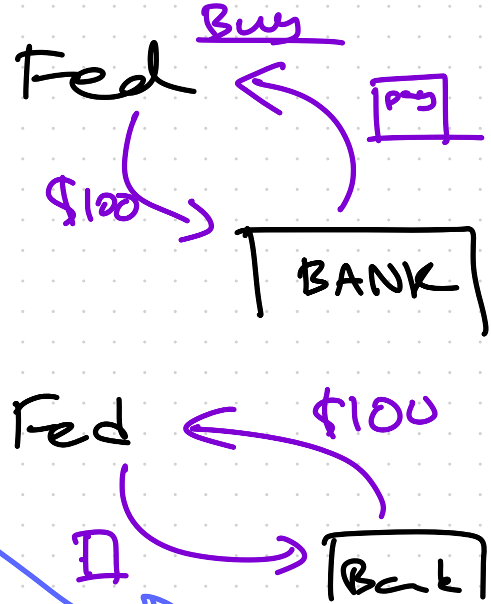
↑ govt spending
↓ taxes

$200

LOANED
$1800

$2000





We are in inflation.
What can govt do?
How does it shift money market curve?
How does it shift AD/AS graph?

<u>What can govt do:</u> <u>reduce M_S</u>

Open Market Operations : <u>Sell bonds</u>
Interest Rates (Discount Rate) : ↑ Discount Rate
Required Reserve Ratio. : ↑ RR

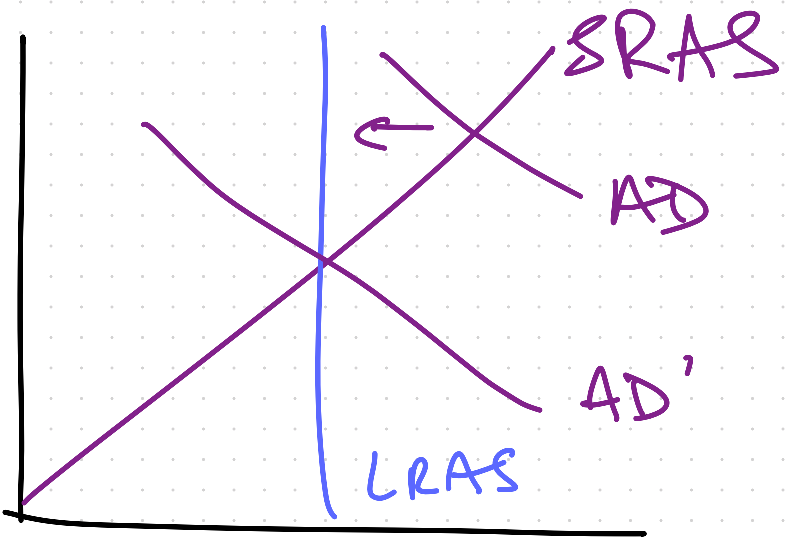
Fiscal Policy

Inflation

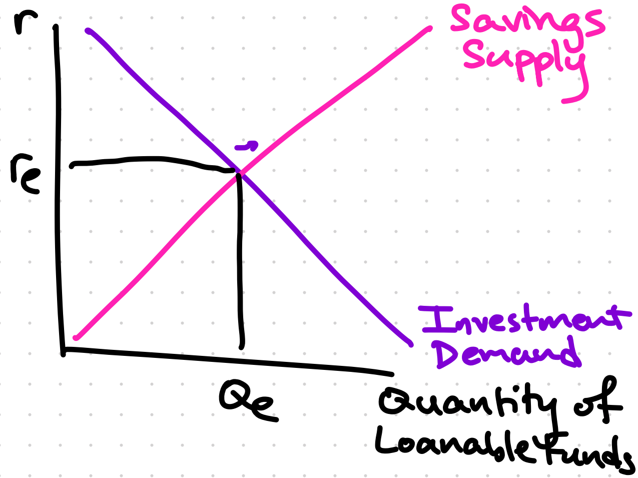
Tax ↑

Govt Spending ↓

Budget of govt: Surplus



Loanable Funds

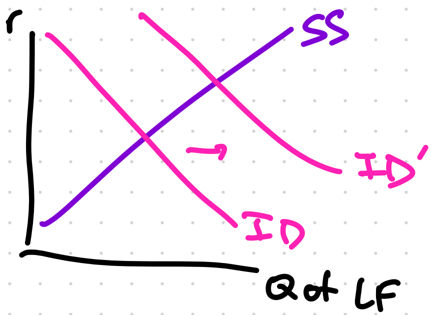


(increase in expected returns)

(increase in household income)

CROWDING OUT

increase in govt deficit (increase in govt spending)
increase interest rates
reduce I_G



$\boxed{\text{ID' because govt requires money to spend}}$

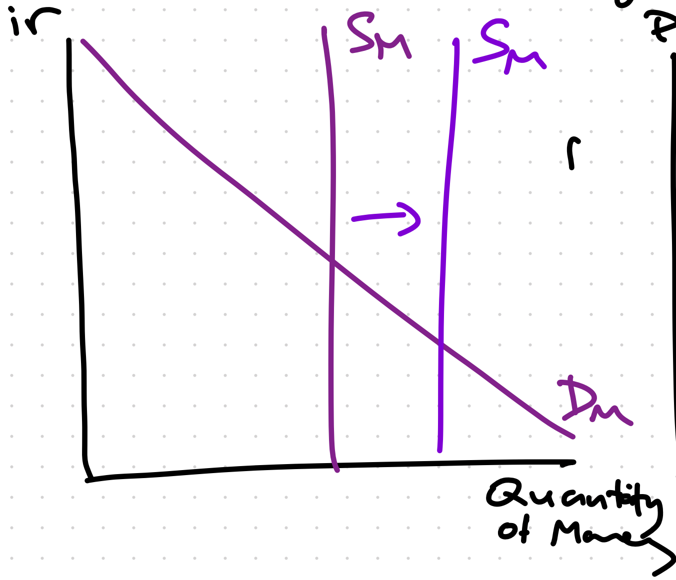
Unit 5.1

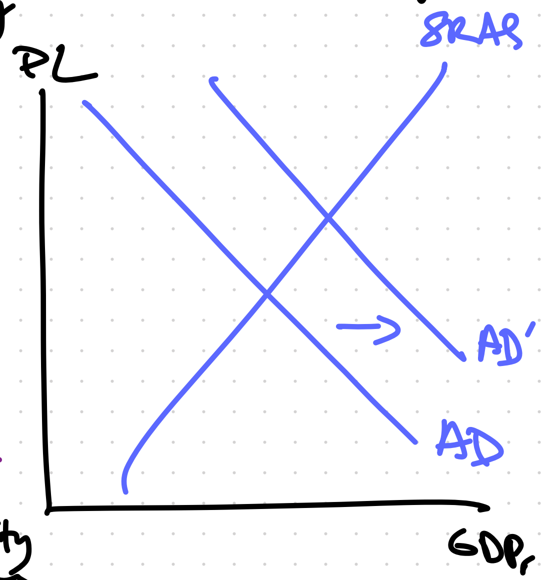
MP and FP

↓RR: buy.
↓IR: bonds

contractionary monetary policy and contractionary fiscal policy

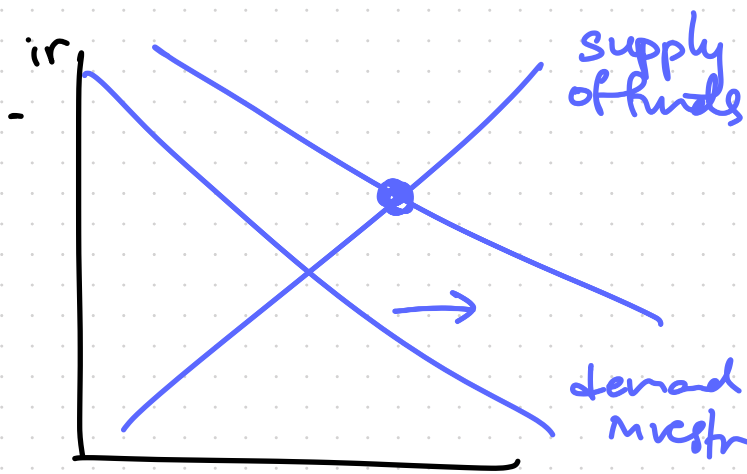
IR indet.
econ growth indet.





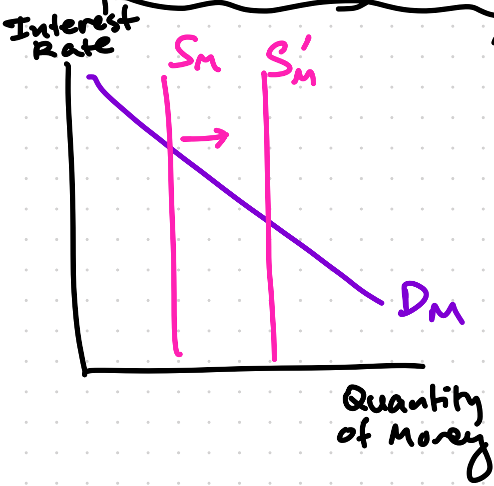
Loanable Funds Market

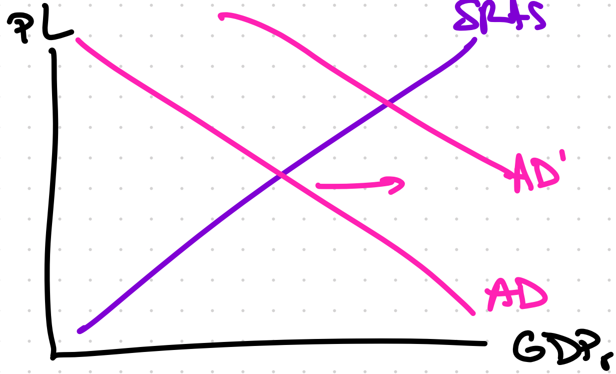
govt budget.



AD/AS

expansionary MP and FP

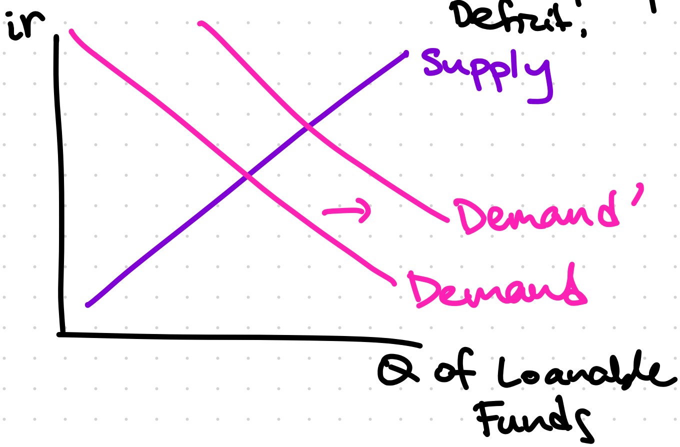




But Loanable Funds Market:

Expand Fiscal Policy: ↓Taxes, ↑Govt Spending.

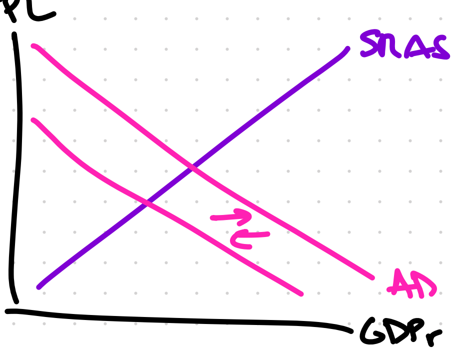
Deficit!

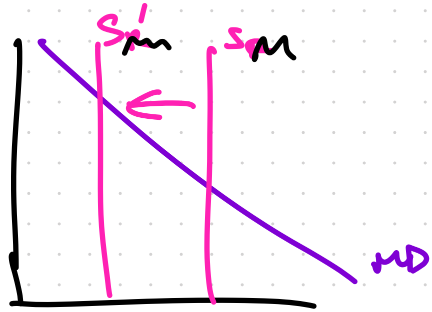


So ir is indeterminate, investment indeterminate

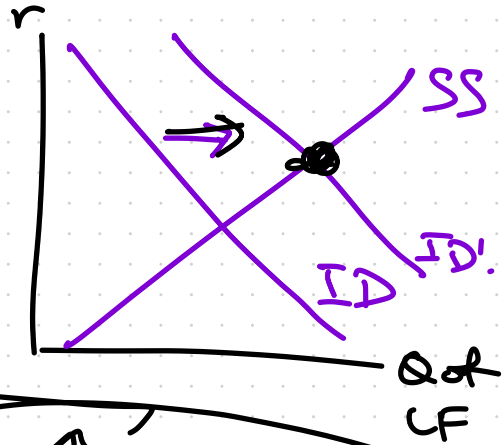
Economic Growth is indeterminate.

Contractionary MP and Expansionary FP





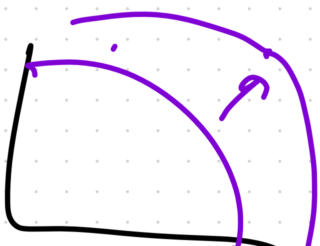
AD is indeterminate
Price level Indeterminate
Real GDP indeterminate



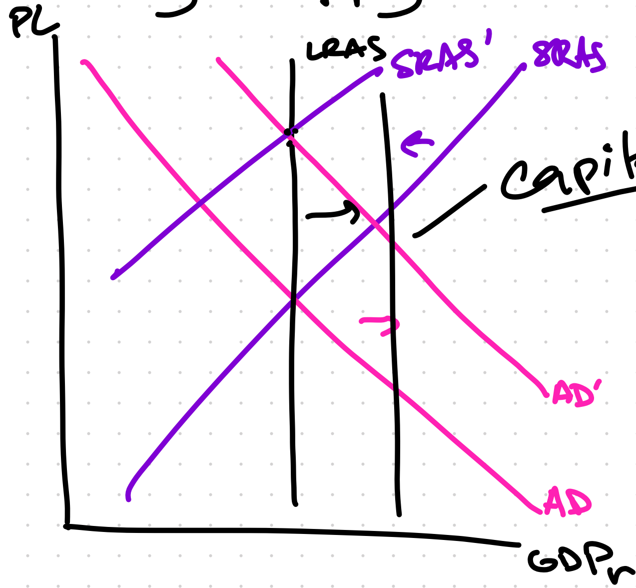
tax ↓

Spending ↑

So ir ↑.
Gross Investment ↓.



Money Supply ↑



because of WAGES!

capital

expansionary in long run

Monetary Eqn of Exchanges

$$MV = PY$$

M: money supply
V: velocity of money
P: price level
Y: real GDP

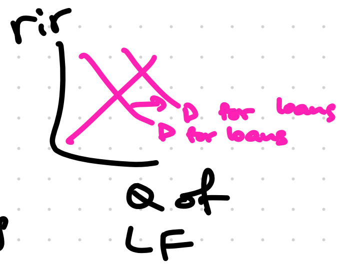
National Debt

Fiscal Policy

Deficit: Taxes < Spending

Surplus: Taxes > Spending

Crowding Out



Budget Deficit:

Increases Interest Rates

Decreases Economic Growth

Decreasing Investment.

Budget Surplus:

Decreases Interest Rate.

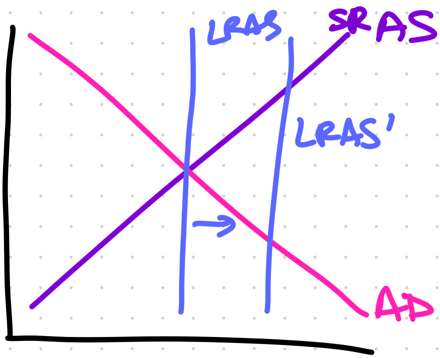
Increase Growth

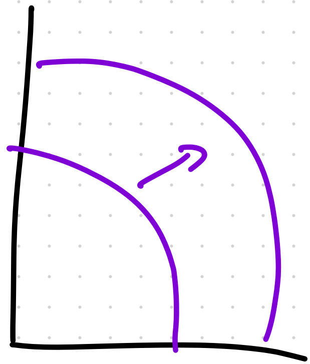
Increase Investment.

Economic Growth

↑ per capita GDP.

- Q of FOPs
- Productivity





5.7 Policy for Growth.

→ Govt Funded Research

→ Investment Tax Credits

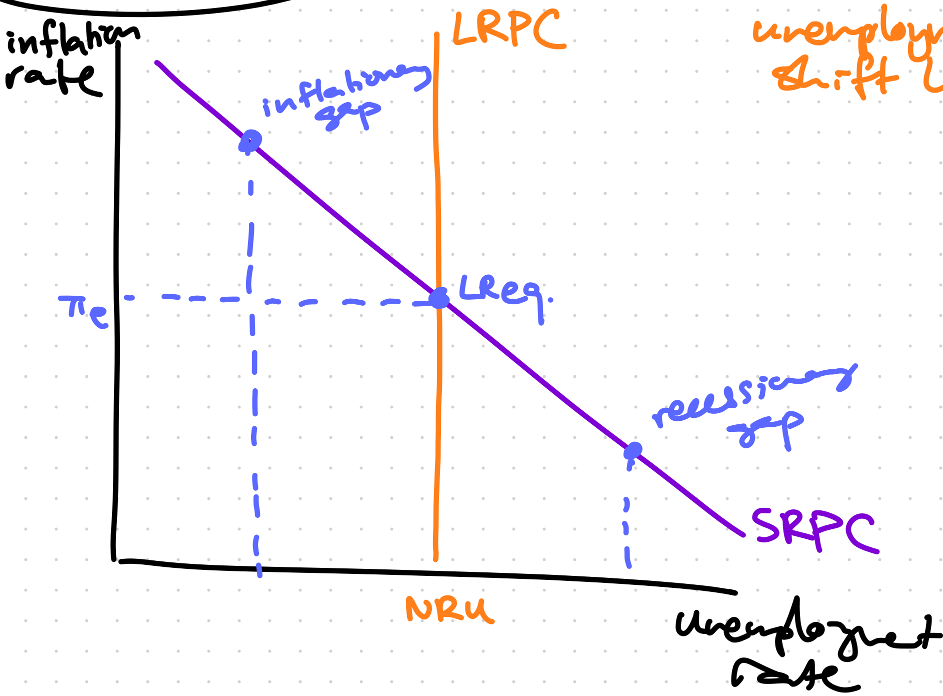
→ Jobs Training Programs

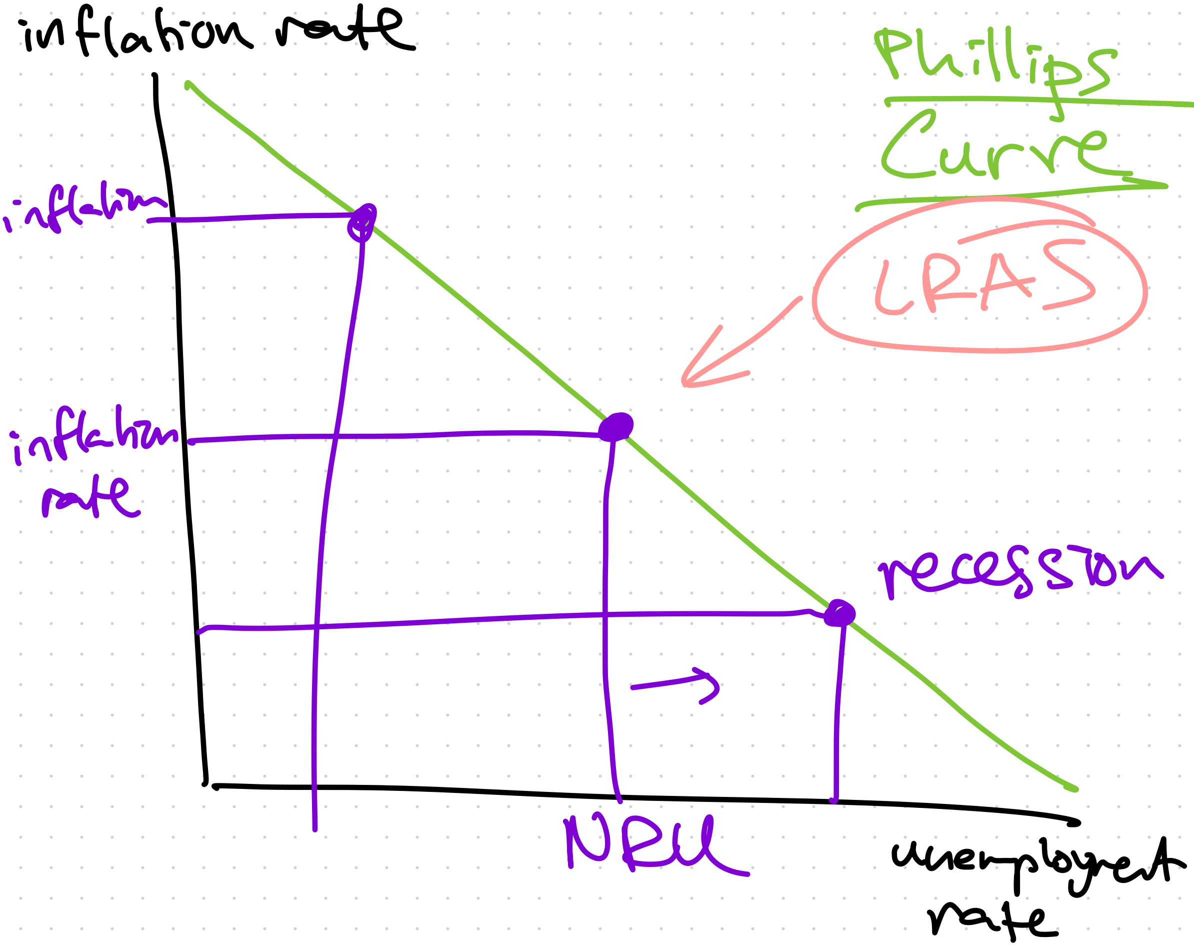
→ Supply Side Policies

- Reduced Regulation & Tax Cuts

PHILLIPS CURVE

change in structural or frictional unemployment will shift LRPC.





inflation rate
Phillips
Curve
LRAS
inflation
inflation rate
recession
NRU
unemployment rate