Chapter 13

1. Discretionary fiscal policy is the purposeful change of government expenditures and tax collections by governments to promote full employment, price stability, and economic growth.
2. Expansionary fiscal policy consists of increases in government spending, reductions in taxes, of both and is designed to expand real GDP by increasing aggregate demand.
3. Contractionary fiscal policy entails decreases in government spending, increases in taxes, o r both, and is designed to reduce aggregate demand and slow or halt demand pull inflation.
4. To be implemented correctly, contrationary fiscal policy must properly account for the ratchet effect and the fact that the price level will not fall as the government shifts the aggregate demand curve leftward.
5. Automatic changes in net taxes (taxes minus transfers) add a degree of built in stability to the economy.
6. Cyclical deficits arise from declines in net tax revenues that automatically occurs as the economy recedes and incomes and profits fall.
7. The cyclically adjusted budget eliminates cyclical effects on net tax revenues; it compares actual level of government spending to the projected levels of net taxes that would occur if the economy were achieving its full employment output.
8. Time lags, political problems. Expectations and state and local finances complicate fiscal policy.
9. The crowding-out effect indicates that an expansionary fiscal policy may increase the interest rate ad reduce investment spending.
10. The U.S public debt -$11.9 trillion in 2009- is essentially the total accumulation of all past Federal budget deficits and surpluses; about 29 percent of the U.S pubic debt is held by foreigners.
11. The U.S public debt held by the public (excluding the Federal Reserve) was 47 percent of GDP in 2009, up from 30 percent in 2000.
12. The Federal government is in no danger of going bankrupt because it needs only to refinance (not retire) the public debt and it can raise revenues, if needed, through higher taxes.
13. The borrowing and interest payment associated with the public debt may (a) increase income inequality; (b) require higher taxes , which may dampen incentives; and (c) impeded he growth of the nation’s stock of capital through crowding out of private investment.

Chapter 14

1. Money serves as a medium of exchange, a unit of account, and a store of value.
2. The narrow M1 definition of money includes currency held by the public plus checkable deposits in commercial banks and thrift institutions.
3. The M2 definition of money includes M1 plus savings deposits, including money market deposit accounts, small denominated (less than $100,000) time deposits, and money market mutual fund balances held by individuals.
4. In the United States, all money consists of the debts of government commercial banks, and thrift institutions.
5. These debts efficiently perform the functions of money as long as their value, or purchasing power, is relatively stable.
6. The value of the dollar (its domestic purchasing power) is inversely related to the price level.
7. Government’s stability in stabilizing the purchasing power of the monetary unit calls for (a) effective control over the supply of money by the monetary authorities and (b) the application of appropriate fiscal policies by the president and congress.

Chapter 15

1. The United States has a fractional reserve banking system, in which the collective reserve of the banks usually are considerably less than 100 percent of their checkable deposit liabilities.
2. When a bank accepts deposits of cash, the composition of the money supply is changed, but the total supply of money is not directly altered.
3. Commercial banks and thrifts are obliged to keep required reserves equal to a specified percentage of their own checkable deposit liabilities as cash or on deposit with the Federal Reserve Bank of their district.
4. The amount by which a banks actual reserves exceed is required reserves is called excess reserves.
5. A bank that has a check drawn and collected against it will lost to the recipient bank both reserves and deposits equal to the value of the check.
6. Banks create money when they make loans; money vanishes when bank loans repaid.
7. New money is create when banks buy government bonds from the public. Money disappears when banks sell government bonds to the public.
8. Banks balance profitability and safety in determining this mix of earning assets and highly liquid assets.
9. Although the Fed pays interest on excess reserves, banks may be able to obtain higher interest rates by temporarily lending the reserves to other banks in the Federal funds market. The interest rate son such loans is the Federal funds rates.
10. A single bank in multibank system can safely lend (create money) by an amount equal to its excess reserves; the banking system can lend (create money) by a multiple of its excess reserves.
11. The monetary multiplier is the reciprocal of the required reserve ration; it is the multiple by which the banking system can expand the money supply for each dollar of excess reserves.
12. The monetary multiplier works in both directions; it applies to money destruction from the payback of loans as well as the money creations from the making of loans.

Chapter 16

1. People demand money for transition and asset purposes.
2. The total demand for money is the sum of the transactions and asset demands; it is graphed as an inverse relationship (downsloping line) between the interest rate and the quatity of money demanded.
3. The equilibrium interest rate is determined by money demand and supply ; it occurs when people are willing to hold the exact amount of money being supplied by the monetary authorities.
4. Interest rates and bond prices inversely related.
5. The Fed has four main tools of monetary control, each of which works by changing the amount of reserves in the banking system: (a) conducting open market operations ( the Fed’s buying and selling of government bonds to the banks and the public) ; (b) changing the reserve ratio ( the percentage of commercial bank deposits liabilities requires as reserves); (c) changing the discount rate (the interest rate the Federal Reserve Banks charge on loans to banks and thrifts); and (d) changing the amount of reserves is auctions to banks through the term auction facility.
6. Open market operations are the Fed’s monetary controls mechanism of choice for routine increase of decreases in bank reserve over the business cycle; in contrast, changes in reserve requirements, aggressive changes in discount rates, and auctions of reserves are used only in special situations.
7. The Fed conducts its monetary policy by establishing a targeted Federal funds interest rates- the rate that commercial banks charge one another for overnight loans of reserves.
8. An expansionary monetary policy (loose money policy) lowers the Federal Funds rate, increases the money supply, and lowers other interest rates.
9. A restrictive monetary policy (tight money policy) increases the Federal funds rate: reduces the money supply, and increases other interest rates.
10. The Fed uses its discretion in setting the Federal funds target rate, but its decisions regarding monetary policy and the target rate appear to be broadly consistent with the Taylor rule.