

Economics & Civics: Fiscal Policy vs Monetary Policy



Use the matching sheet ID when checking answers.

Part A: Macroeconomic Policy Analysis. Evaluate how governmental and central banking tools respond to business cycles.

1. If the national economy enters a severe recession marked by rising unemployment and declining GDP, which FISCAL POLICY action would the federal government enact to stimulate aggregate demand?

Answer: B. Increase federal infrastructure spending and cut personal taxes to inject purchasing power into the economy

Expansionary fiscal policy, rooted in Keynesian economic theory, combats recessions by increasing government expenditure and reducing taxes to boost consumer demand and employment.

2. When the Consumer Price Index (CPI) indicates high and persistent inflation, how does the Federal Reserve use MONETARY POLICY to cool down inflationary pressures?

Answer: B. Increase the benchmark Federal Funds Rate and sell government bonds in open market operations, tightening the money supply

Contractionary monetary policy raises interest rates, making borrowing more expensive for businesses and consumers, which decelerates spending and stabilizes price levels.

3. Why was the Federal Reserve deliberately created as an independent central bank operating outside direct day-to-day presidential and congressional political control?

Answer: A. To keep monetary interest rate decisions grounded in long-term economic data rather than short-term election-cycle politics

Central bank independence shields monetary governors from political pressure to keep interest rates artificially low before elections, which would trigger damaging hyperinflation.

Part B: Policy Instrument Comparison Matrix. Classify each policy lever under Fiscal Policy or Monetary Policy.

Sort these items: Adjusting marginal federal income tax brackets and corporate tax incentives; Raising or lowering the target Federal Funds Rate and discount rate; Passing federal appropriations bills for interstate highways, defense, and education; Conducting Open Market Operations (buying or selling Treasury bonds) to adjust liquidity; Issuing economic stimulus checks and extending federal unemployment benefits; Setting bank reserve requirements and interest on reserve balances (IORB)

| Fiscal Policy (Congress & White House)                                                                                                                                                                                                          | Monetary Policy (The Federal Reserve)                                                                                                                                                                                                    |
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