

Economics & Civics: Fiscal Policy vs Monetary Policy



Name: _____ Date: _____

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?

- A. Raise federal personal income tax rates to balance the national budget
- B. Increase federal infrastructure spending and cut personal taxes to inject purchasing power into the economy
- C. Order the Federal Reserve to raise benchmark interest rates
- D. Outlaw the private purchase of foreign imported goods

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?

- A. Print more paper currency and distribute it to citizens
- B. Increase the benchmark Federal Funds Rate and sell government bonds in open market operations, tightening the money supply
- C. Pass a federal bill to lower corporate income taxes
- D. Lower mortgage interest rates to encourage home borrowing

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

- A. To keep monetary interest rate decisions grounded in long-term economic data rather than short-term election-cycle politics
- B. Because the Constitution forbids the president from discussing economics
- C. To prevent state governments from issuing their own corporate charters
- D. To eliminate the need for commercial private banks

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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)