Week 6 Discussion

Monetary and Fiscal Policies

An economy is assumed to be operating at full capacity when its real GDP (what the economy produces) equals its potential GDP (what the economy would produce if all factors of production are used). When the economy is producing at full potential, everyone who wants to work can find a job, because every worker who enters the workforce will produce what he or she will eventually consume with the income. In addition, and when the economy is producing at full capacity, unemployment rates in the economy represent the natural rate of unemployment (only frictional and structural unemployment exists), which is also referred to as full employment.
When the economy produces what it needs and consumes what it produces, the price level of the final goods and services and the price level of inputs (material and labor) will be at the same. In other words, the rate of change in the price level of goods and services will be equal to the rate of change in income (wages and return to investment).

To ensure the economy continues to operate at potential GDP (full capacity where all savings are invested in production functions and where all those who wish to work can find a job and all other factors of production are fully utilized in the production function), governments use fiscal and monetary policies to lower unemployment rates and to control prices (inflation).

Please review the following videos to better understand both fiscal and monetary policies.

- Fiscal Policy and Stimulus
- Monetary Policy and the Federal Reserve

- Discuss the primary goals of expansionary and contractionary fiscal policies and their effects on unemployment rates, inflation rates, interest rates, private investment, and GDP.
- Discuss the goals of expansionary and contractionary monetary policies used by the Federal Reserve Bank and the approaches (called monetary policy tools) used to achieve each policy. Also, discuss the effect of each policy on GDP, price level, private investment (investment in capital acquisition by firms and housing by households), and net trade.

- In your opinion, which policy is more effective, and

why? **Response:**

Hello Professor & Class,

Fiscal policy is a economic strategy created by the government to control public spending while monitoring tax policies over a period of time in our domestic nation. The Congress, and the President (Executive and Legislative branch) can take any action at any time if they agreed to economy is at its high, or at its lows. On the other hand, discretionary fiscal policy is an