Fiscal Policy

The spending and taxing policies used by Congress and the president to influence aggregate demand in the economy.

**WHO?**
- Congress
- President

**Fiscal Policy Tools**
- Changes in government spending
- Changes in tax rates and rules

### Expansionary Fiscal Policy
- No budget surplus (deficit)
- Tools used to stimulate the economy:
  - Increase government spending
  - Reduce tax rates

### Contractionary Fiscal Policy
- Budget surplus
- Tools used to stabilize the economy in times of inflation:
  - Reduce government spending
  - Increase tax rates

**Monetary Policy

The tools used by the Federal Open Market Committee to influence the availability of credit and the money supply.

**WHO?**
- Federal Open Market Committee
- 4 rotating votes–district presidents
- 1 Federal Reserve President
- 7 members of the Board of Governors
- 7 nonvoting members

**Monetary Policy Tools**
- Open market operations
- Reserve requirement
- Interest on required and excess reserves
- Discount rate

### Expansionary Monetary Policy
- Tools used to stimulate the economy during a recession:
  - Buying government securities
  - Lowering the reserve requirement
  - Lowering the discount rate
  - Lowering interest paid on required and excess reserves

### Contractionary Monetary Policy
- Tools used to stabilize the economy in times of inflation:
  - Selling government securities
  - Increasing reserve requirements
  - Increasing the discount rate
  - Increasing the interest paid on required and excess reserves

**Fiscal & Monetary Policy Goals**

- Recessionary gap
- Inflationary gap
- Potential Real GDP
- Natural Real GDP
- Real GDP
- Price level
- Employment

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