# Module 12: The Changing Times – The 2000s to the Present

## Topic 1 Content: The Government's Influence on the Economy

### Introduction

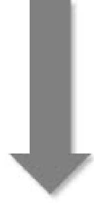
Click the ***NEXT*** button to begin exploring how the government influences the economy through monetary and fiscal policy.

### Monetary Policy

The first way in which the government influences the economy is through something called monetary policy. Think about the word monetary for just a second. What does that word sound like? Does it sound a little bit like money? Monetary policy refers to decisions about the supply of money available in the economy. Those decisions are made by the Federal Reserve, the central or national bank of the United States. The Federal Reserve is charged with two tasks, keeping unemployment low and keeping inflation low.

## Federal Reserve

INTEREST RATES



Banks can borrow and lend money more easily

The Federal Reserve tries to accomplish these two tasks primarily by controlling the supply of money available in the economy. It does this primarily through interest rates. The Federal Reserve sets the rate at which other banks can borrow money. If the Federal Reserve lowers the interest rate, it becomes easier for banks to borrow money and lend it for others to spend. This helps stimulate the economy and make it grow. If the economy grows too quickly or too much money gets out into the economy, inflation can occur. To prevent inflation from getting out of hand, the Federal Reserve will raise interest rates, cutting down on the amount of money in the economy, and slowing the economy's growth. The Federal Reserve has a difficult balancing game to conduct in order to keep both unemployment and inflation low.

### Fiscal Policy

The second way in which the government influences the economy is through fiscal policy. Fiscal policy refers to the decisions on government spending and taxing made by Congress and approved by the President of the United States. If Congress and the President want to stimulate the economy or make it grow, they can increase government spending. More money in the economy causes it to grow. They can also cut or reduce taxes. Cutting taxes will also put more money into the economy. The inverse is true if they want to slow down the economy. Raising taxes or cutting government spending reduces the amount of money in the economy, which slows economic growth.