5.1 Fiscal and Monetary Policy Actions in the Short Run

Name: ____________ Class: ________ Date: __________ **Total: 10 marks**

KEY WORDS monetary 货币 • fiscal 财政 • monetary policy 货币政策 • fiscal policy 财政政策 • stabilization policy 稳定政策

Objective

Build the skills to answer exam questions on **fiscal and monetary policy actions in the short run**.

You must be able to:

- combine **fiscal** 财政 and **monetary** 货币 policy to analyse their joint effect
- use the AD–AS and money-market models together
- state the goals of **stabilization policy** 稳定政策: full employment and price stability

1 Worked examples

Study these first. Each one shows the method for a question type used later.

Two policy levers

Fiscal policy (spending and taxes) and **monetary policy** (money supply and interest rates) both shift **aggregate demand**.

Used together

Trace an expansionary mix: more government spending shifts AD right directly, while a cut in interest rates raises investment, shifting AD right again.

The goals

Stabilization policy aims for **full employment** and **price stability**.

2 Practice

2.1 State the two goals of stabilization policy. [2]

2.2 State one fiscal and one monetary tool used to fight a recession. [2]

2.3 State which policy is run by the central bank. [1]

3 Exam-style questions

3.1 Stabilization policy aims for full employment and [1]

- **A** high inflation
- **B** price stability
- **C** a trade surplus
- **D** low saving

3.2 Both expansionary fiscal and expansionary monetary policy shift AD [1]

- **A** to the left
- **B** to the right
- **C** not at all
- **D** downward

3.3 An economy is in a deep recession.

(a) Name an expansionary **fiscal** action. [1]

(b) Name an expansionary **monetary** action. [1]

(c) State the combined effect on AD. [1]

Solutions

2.1 full employment and price stability.

2.2 fiscal: increase government spending (or cut taxes); monetary: cut interest rates (buy bonds).

2.3 monetary policy.

3.1 B.

3.2 B.

3.3 (a) increase government spending or cut taxes. (b) buy bonds / cut interest rates. (c) AD shifts right (increases).