

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 | B |
| C | D |
- 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 | B |
| C | D |
- 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]