

Desired result: Inflation down (prices down)

Policy: Contractionary Policy

Fiscal (government actions):

1. Raise taxes
2. Decrease Government spending

Monetary Policy (actions the central bank does):

1. Raise the required reserve ratio
2. Central Bank sells bond.
3. Raise discount rate

Results:

Money supply down

Loanable funds down

Interest rates up

Investments down

Aggregate Demand down

Desired Result: GDP goes up (unemployment down)

Policy: Expansionary Policy

Fiscal (government actions):

1. Lower taxes
2. Increase Government spending

Monetary Policy (actions the central bank does):

1. Lower the required reserve ratio
2. Central Bank buys bonds.
3. Lower discount rate

Results:

Money supply up

Loanable funds up

Interest rates down

Investments up

Aggregate Demand up