

Monetary and Fiscal Policy

Tools of Monetary and Fiscal Policy

Both monetary and fiscal policy can be used to influence the inflation rate and real output. In Table 5-3.1, use \uparrow or \downarrow to indicate what effect each specific policy has on inflation and real output in the short run.



Table 5-3.1

Monetary Policy

Monetary policy	Price level	Real output
1. Raise the federal funds rate		
2. Decrease the discount rate		
3. Decrease reserve requirement		

Fiscal policy	Price level	Real output
4. Increase government spending		
5. Increase taxes		