<u>CE.E.3.2</u>

Explain how fiscal policy and monetary policy influence overall levels of employment, interest rates, production, price level and economic growth (e.g., business cycle, standard of living, recession, depression, Consumer Price Index, etc.).

Students will understand:

1. Changes in the money supply can result in consequences which can effect inflation.
2. National, state and local levels of government often use tax cuts and spending increases in times of economic weakness to stimulate the economy. (Structure of government, federalism)
3. Fiscal policy can provide stimulus during economic recession.
4. Monetary policy decisions can prevent inflation.

Students will know:

1. Monetary policy is used by the national government and fiscal policy is used by all levels of government.
2. The "policy tools" used by the Federal Reserve
3. Changes in the money supply can lead to changes in interest rates, which, in turn, affect the availability of credit, the average level of prices and national levels of spending and output.
4. The purpose of the Federal Reserve System and how it functions.
5. The explanation of how banks create money when they make loans.
6. Paper money is no longer "backed" by gold. Its value is largely dependent on the amount of money that the Federal Reserve allows banks to create.
7. The purpose of "fiat" money.
    a. For example: Fiat money is money that has value only because of government regulation or law, rather than the backing of silver or gold. Today, most national currencies are fiat currencies, including the US dollar and the Euro.
8. How and why fiscal and monetary policies are used as attempts to stimulate the economy in a contraction.
9. How and why fiscal and monetary policies are used to try and keep the economy from "overheating" in an expansion.
10. Why the tools of fiscal policy (including stimulus) and monetary policy (including expansion of the money supply, contractionary policy) are controversial.