Policy in Motion

Trace how policy choices affect prices, jobs, growth, and debt.

SS24.E.9 "Explain how fiscal and monetary policy influence price stability, employment, and economic growth, citing examples from the past hundred years..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two Fed policy actions and circle two government spending actions. Put a 1 beside the sentence that explains why debt can rise after a deficit falls.

Two Paths Through a Changing Economy

1. In 2008, a financial crisis threatened jobs and lending. The Federal Reserve lowered its target interest rate and supplied liquidity to banks to support spending and employment. Today, banks hold ample reserves. Rather than making reserves scarce, the Fed pays interest on reserve balances and offers overnight reverse repurchase agreements. These administered rates help steer short-term interest rates toward its target. The Fed also supervises certain banks, checking risk management and financial strength. When inflation surged in 2022, it raised rates to cool borrowing and price increases, although slower spending could restrain hiring and growth.

2. Fiscal policy takes a different route: lawmakers change taxes and government spending. During the COVID-19 downturn in 2020, Congress approved relief payments and expanded unemployment benefits to help households keep buying necessities and to limit job losses. Such spending can support growth, but strong demand can add to inflation if supplies cannot keep up. Congress also sent grants to state and local governments to fund services. State legislatures decide how to tax and spend within their budgets; for example, a state can fund worker training to address unemployment. Congress can attach conditions to grants, while state legislatures can mandate local services, shifting costs to local governments.

3. Deficits connect policy choices to national debt. A deficit is the amount federal spending exceeds revenue in one fiscal year; debt is the total amount owed from past borrowing. Recession and relief programs helped push the 2009 deficit to about $1.4 trillion. Pandemic relief and reduced revenue helped push the 2020 deficit above $3 trillion. By 2022, the deficit had fallen to about $1.4 trillion as emergency programs ended and revenue recovered. Yet gross federal debt grew from about $26.9 trillion in 2020 to $30.9 trillion in 2022. A smaller deficit slows debt growth; it does not repay existing debt.

2 ANSWER WITH EVIDENCE

Use the passage

1. How do the Fed's administered rates and bank supervision serve different purposes?

2. How could Congress's 2020 relief spending support employment but also threaten price stability?

3. How could a congressional grant and a state mandate affect who pays for public services?

4. Compare the 2020 and 2022 deficits and debt. Why did debt rise even though the deficit fell?

3 YOUR TURN

Your own words

A region faces factory layoffs while inflation remains high. In five or six sentences, propose a Fed action and a congressional grant, then predict effects on prices, employment, growth, the federal deficit, and debt. Include one trade-off.

Policy in Motion

PART 1 · READ AND MARK

Underline two Fed policy actions and circle two government spending actions. Put a 1 beside the sentence that explains why debt can rise after a deficit falls. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How do the Fed's administered rates and bank supervision serve different purposes?	**Interest on reserve balances and overnight reverse repurchase agreements help steer short-term interest rates. Bank supervision checks risk management and financial strength.**
2	How could Congress's 2020 relief spending support employment but also threaten price stability?	**Relief helped households keep spending, which could limit job losses. If demand grew faster than supply, that spending could add to inflation.**
3	How could a congressional grant and a state mandate affect who pays for public services?	**A congressional grant provides funding to state or local governments, sometimes with conditions. A state mandate can require local services and shift their costs to local governments.**
4	Compare the 2020 and 2022 deficits and debt. Why did debt rise even though the deficit fell?	**The deficit fell from more than $3 trillion in 2020 to about $1.4 trillion in 2022, but gross federal debt rose from about $26.9 trillion to $30.9 trillion. A smaller deficit still adds to debt.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

The Fed could raise its policy rate to restrain borrowing and help bring down inflation. Congress could fund a job-training grant for workers displaced by the factory closure, helping them qualify for new jobs and supporting future growth. The grant might raise the federal deficit if lawmakers do not offset its cost with taxes or spending cuts. Continued deficits would add to federal debt, even if later deficits become smaller. A trade-off is that higher interest rates could delay business expansion and hiring while the grant helps workers return to employment.

Accept other plausible Fed actions and grant purposes if the response explains their effects and a trade-off. Students should distinguish an annual deficit from accumulated debt.