Steering the Economy

How fiscal and monetary policies affect growth and prices

USG.C.1.5.C "Examine how government policies in a market system can be used to stabilize and stimulate economic growth."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline one sentence that shows how fiscal policy could boost spending, and write 1 beside it. Circle one sentence that shows how monetary policy could slow rising prices, and write 2 beside it.

When Orders Slow Down

1. On a rainy Tuesday, a machine shop in Cedar Falls cancels a shift because stores have ordered fewer refrigerators. Workers buy less lunch nearby, and the diner cuts hours too. This chain reaction is a downturn: falling spending can lead businesses to reduce production and jobs. In a market system, households and businesses still make most buying and hiring decisions. Government policies can influence those decisions without setting every price or deciding what each factory makes. The goal is not simply to spend money. Policymakers may try to steady demand during a slump while protecting the economy from rising prices later.

2. Congress could approve repairs to a damaged highway near the shop. Paying construction workers puts income into local households, which may increase purchases and encourage businesses to hire. Congress could also temporarily cut taxes so households keep more of their pay. These choices about federal spending and taxes are **fiscal policy**. They can stimulate growth when demand is weak, but a project takes time to approve and build. If Congress spends heavily when businesses are already struggling to meet orders, extra demand could push prices higher instead of producing much more output.

3. The Federal Reserve, the nation's central bank, uses **monetary policy** to influence borrowing conditions. If spending is weak, it can lower its target for short-term interest rates; cheaper loans may encourage purchases of equipment and homes. If prices are rising too quickly, it can raise that target; costlier loans may slow borrowing and spending, easing pressure on prices. Higher rates can also slow hiring, so fighting inflation has a cost. Neither policy guarantees a result. A diner may save a tax cut, and a shop may delay a loan even at lower rates. Leaders must weigh timing, benefits, and risks.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could federal highway repairs help the machine shop's town recover from weak sales?

2. Why might a federal tax cut help during a slump but have a different effect when businesses cannot fill all their orders?

3. How could the Federal Reserve's lower interest rate target stimulate growth, and why might it fail to do so?

4. If prices rise too quickly, how could the Federal Reserve respond? Explain one possible cost of that response.

3 YOUR TURN

Your own words

A town's grocery stores and repair shops are losing customers. A year later, sales rebound, but prices begin to climb. Propose one fiscal action for the first problem and one monetary action for the later problem. In four sentences, explain how each action could affect spending and give one cost or limit of your plan.

ANSWER KEY

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HIGH SCHOOL · USG.C.1.5.C

PART 1 · READ AND MARK

Underline one sentence that shows how fiscal policy could boost spending, and write 1 beside it. Circle one sentence that shows how monetary policy could slow rising prices, and write 2 beside it. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could federal highway repairs help the machine shop's town recover from weak sales?	**The repairs would pay workers, who might spend more at local businesses. More sales could encourage businesses to produce more and hire.**
2	Why might a federal tax cut help during a slump but have a different effect when businesses cannot fill all their orders?	**A tax cut leaves households with more money to spend, which can support growth in a slump. When businesses cannot meet demand, additional spending could push prices higher instead.**
3	How could the Federal Reserve's lower interest rate target stimulate growth, and why might it fail to do so?	**Lower borrowing costs may encourage purchases of homes or equipment. Growth might not increase if businesses delay taking loans despite the lower rates.**
4	If prices rise too quickly, how could the Federal Reserve respond? Explain one possible cost of that response.	**It could raise its interest rate target to discourage borrowing and spending, easing pressure on prices. Slower spending could also slow hiring.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

When sales are weak, Congress could temporarily cut federal taxes so households have more money to spend at local businesses. Higher sales might help those businesses keep workers employed. If prices later climb too quickly, the Federal Reserve could raise its interest rate target to slow borrowing and spending. That step might ease pressure on prices, but it could also slow hiring.

Accept other passage-supported fiscal actions for weak sales, such as federal repair spending, and a higher interest rate target for rising prices. Responses should connect each action to spending and identify a plausible cost or limit.