Steady the Economy

Trace how policy choices affect jobs, spending, and prices

USG.C.7.1.D "Examine how the government can influence the stability and growth of the economy through fiscal and monetary policy."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline federal tax and spending actions, and circle Federal Reserve actions. Draw an arrow from each marked action to an effect the passage says it could cause.

Two Ways to Respond to a Slowdown

1 When orders fall at a furniture factory, fewer workers get shifts, and nearby diners lose customers. A slowdown can spread because one person's spending is another person's income. Congress and the president can use fiscal policy, decisions about federal taxes and spending, to support demand. Suppose they approve repairs to aging bridges and a temporary tax cut for low-income households. Repair contracts pay crews and suppliers, while households may spend some of their extra take-home pay. Both routes can help firms keep workers and make purchases, though neither guarantees an immediate recovery.

2 The Federal Reserve, or Fed, has a different set of tools. It does not decide which bridges to repair or set federal income tax rates. When the economy is weak, the Fed can lower its target for short-term interest rates. It may also buy government bonds to put more money into financial markets and push some borrowing rates lower. Cheaper loans can make it easier for firms to buy equipment and for families to finance homes. Those purchases can increase hiring, but banks and borrowers may still hesitate if they expect poor sales.

3 Policies that boost spending also carry risks. If demand rises faster than factories and workers can supply goods, prices may climb. In that case, the Fed could raise its interest-rate target to make borrowing less attractive and cool spending. Congress and the president could reduce federal purchases or raise taxes, which could also slow demand. These choices may steady prices, yet they can reduce hiring in the short run. Federal projects may take months to begin, and tax changes can affect the budget. Policymakers must judge whether weak growth or rising prices pose the greater danger.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could bridge repairs and a temporary tax cut each help businesses during a slowdown? Explain the different paths.

2. Trace how a Fed action that lowers borrowing rates could lead to more hiring.

3. If demand is pushing prices up, what could federal officials and the Fed each do to slow it?

4. Why might a policy that helps steady rising prices also make weak growth worse in the short run?

3 YOUR TURN

Your own words

Imagine storms damage major ports, slowing deliveries while prices rise. In 4 to 5 sentences, propose one federal fiscal action and one Fed monetary action, explain how each could affect growth or prices, and identify one trade-off.

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PART 1 · READ AND MARK

Underline federal tax and spending actions, and circle Federal Reserve actions. Draw an arrow from each marked action to an effect the passage says it could cause. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could bridge repairs and a temporary tax cut each help businesses during a slowdown? Explain the different paths.	**Bridge contracts pay crews and suppliers. A tax cut gives households more take-home pay, some of which they may spend at businesses.**
2	Trace how a Fed action that lowers borrowing rates could lead to more hiring.	**Lower rates can make loans cheaper, so firms may buy equipment and families may buy homes. The resulting purchases can increase hiring.**
3	If demand is pushing prices up, what could federal officials and the Fed each do to slow it?	**Congress and the president could reduce federal purchases or raise taxes. The Fed could raise its interest-rate target to discourage borrowing and spending.**
4	Why might a policy that helps steady rising prices also make weak growth worse in the short run?	**Slowing demand may help steady prices, but reduced spending can also reduce hiring in the short run.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

After storms damage major ports, Congress could fund repairs that let ships unload goods sooner. Better deliveries could help businesses restock and keep workers employed while easing some pressure on prices. If inflation stays high, the Fed could raise its interest-rate target to curb borrowing and spending. Higher borrowing costs might also slow investment and hiring before the ports are fully repaired.

Accept other accurate fiscal and monetary actions if the student explains a plausible effect and a trade-off. Distinguish federal tax and spending decisions from Federal Reserve decisions.