

1. The rate of inflation has increased by 6.8% over the last year. The U.S. Government wonders what it can do to help improve this situation.
  - a. Should the government use **Fiscal** or Monetary policies?
  - b. Should the government use expansionary or **contractionary** policies?
  - c. List the expansionary or contractionary policies the government should use.

Decrease Government Spending

Increase taxes

2. The Consumer Price Index has gone up by 6.8% over the last year. The Federal Reserve wonders what it can do to help improve this situation.
  - a. Should the Fed use Fiscal or **Monetary** policies?
  - b. Should the Fed use expansionary or **contractionary** policies?
  - c. List the expansionary or contractionary policies the Fed should use.

Increase the reserve requirements

Increase the Discount rate

Sell government bonds

3. The economy has slowed over the last three months. Ben Bernanke discusses this with his advisors and they discuss what policy changes they could make that would help to improve the situation.
  - a. Should the Fed use Fiscal or **Monetary** policies?
  - b. Should the Fed use **expansionary** or contractionary policies?
  - c. List the expansionary or contractionary policies the Fed should use.

Decrease the reserve requirements

Decrease the discount rate

Buy Government bonds

4. The Gross Domestic Product (GDP) which measures production of goods and services in the U.S. has decreased over the last three months. President Obama meets with his advisors and they discuss what policy changes they could make that would help to improve the situation.
  - a. Should the government use **Fiscal** or Monetary policies?
  - b. Should the government use **expansionary** or contractionary policies?
  - c. List the expansionary or contractionary policies the government should use.

Increase Government Spending

Decrease taxes

5. The economy has decreased for six months. The President is now fearful that the economy is in more trouble than his advisors at first suggested. The cabinet meets again to review what actions should be taken to help get the U.S. out of this economic situation.
- What is this economic situation called? **Recession**
  - Should the government use **Fiscal** or Monetary policies?
  - Should the government use **expansionary** or contractionary policies?
  - List the expansionary or contractionary policies the government should use.

**Increase Government Spending**

**Decrease taxes**

6. During their monthly meeting the Federal Reserve Board discusses the statistic that the GDP has decreased for six consecutive months. They contact you and ask what actions you think they should take.
- Should the Fed use Fiscal or **Monetary** policies?
  - Should the Fed use **expansionary** or contractionary policies?
  - List the expansionary or contractionary policies the Fed should use.

**Decrease the reserve requirements**

**Decrease the discount rate**

**Buy Government bonds**

7. In a business cycle there are four phases. Draw a business cycle and label the four phases.

**Expansion, Peak, Contraction, Trough**

8. Due to the recession unemployment reaches 7% in the U.S. President Obama feels this is not acceptable. What actions should he and his advisors do to attempt to reduce this level of unemployment?
- What type of unemployment is this? **Cyclical**
  - Should the government use **Fiscal** or Monetary policies?
  - Should the government use **expansionary** or contractionary policies?
  - List the expansionary or contractionary policies the government should use.

**Increase Government Spending**

**Decrease taxes**

9. Due to the high level of unemployment the President feels that he alone can not get unemployment under control. He calls the head of the Federal Reserve. He asks him to help by changing policies of the Federal Reserve.
- Who did the President call? **Ben Bernanke**
  - Should the Fed use Fiscal or **Monetary** policies?
  - Should the Fed use **expansionary** or contractionary policies?
  - List the expansionary or contractionary policies the Fed should use.

Decrease the reserve requirements  
Decrease the discount rate  
Buy Government bonds

10. Unemployment

- a. List the four types of Unemployment.

Frictional, Cyclical, Structural and Seasonal

- b. Which is the most dangerous? **Structural**  
c. For which would you have job fairs or job listing? **Frictional**  
d. For which would you do nothing? **Seasonal**  
e. For which would you have job training? **Structural**