

Fiscal Policy – Study Guide

**As always – this guide is meant to give you a starting point for your studying. It is not exhaustive in topics that may be included in the test.*

Major Topics Discussed in the Unit:

- Government Fiscal Policy (Taxation, Spending)
- John Maynard Keynes
- GDP and Measurement of the Nation's Output
- Stock Market
- The Federal Reserve
- Inflation (from chapter reading, review from previous unit)
- Unemployment
- Taxation

Textbook Readings:

Ch. 13 – Economic Performance

Ch. 14 – Economic Instability

Ch. 15 – The Federal Reserve

Things to know/understand:

- Be familiar with the **types of taxation** that government uses to produce revenue (both specific types of taxation like sin tax or income tax, as well as **forms of applying tax** such as progressive or regressive (you should be able to give and/or recognize examples of these)).
- Why was GNP created (later changed to **GDP**)? What is the **formula** for GDP? Understand key components of the limitations of GDP. Also know what types of financial activity are *not* included in GDP.
- Understand **Keynes** and his key beliefs for fiscal policy. How were Keynes' ideas radical for the time? Understand his explanation of full employment and be able to demonstrate how it differed from classical economics. (You should be able to explain this using the components of GDP)
- What is the *most agreed on* cause of inflation? Know the three **types of inflation**. Understand deflation and stagflation. Why is zero percent inflation not usually considered a good thing? (Review from Previous Unit)
- Unemployment is a reality in our economy – what is considered a “normal” percentage of unemployment? Know the **four types of unemployment** and be able to classify events into one of the types (similar to the practice questions in class).
- Understand the power of the Federal Reserve in serving as a stabilizer of the economy. What are **three main tools of the Federal Reserve**? How do these tools work? How does each tool promote easy money policy and tight money policy?
- Know the **Business Cycle**. Know the four notable elements of the cycle as discussed in class and in your textbook. If the economy is to have a more steady rise, rather than larger up and down cycles, what are the two things government can do when the economy is going up, and what are the two things government can do when the economy is going down?
- Be able to tell why **Fiscal Policy** and **Monetary policy** are DIFFERENT, but both seek to help the negatives of the business cycle.