

Economic Policymaking

Chapter 16



Economic Systems

Market Economy: An economic system in which individuals and corporations own the principle means of production, and wages and prices are set by supply and demand.

Command Economy: An economic system where the government makes all decisions about wages, prices and production.

Mixed Economy: An economic system in which the government is involved in economic decisions through its role as regulator, consumer, subsidizer, taxer, employer and borrower.

Monetary Policy



- The manipulation of the supply of money in private hands. Too much cash and credit result in inflation.
- The money supply affects interest rates (increasing the money supply results in lower interest rates).

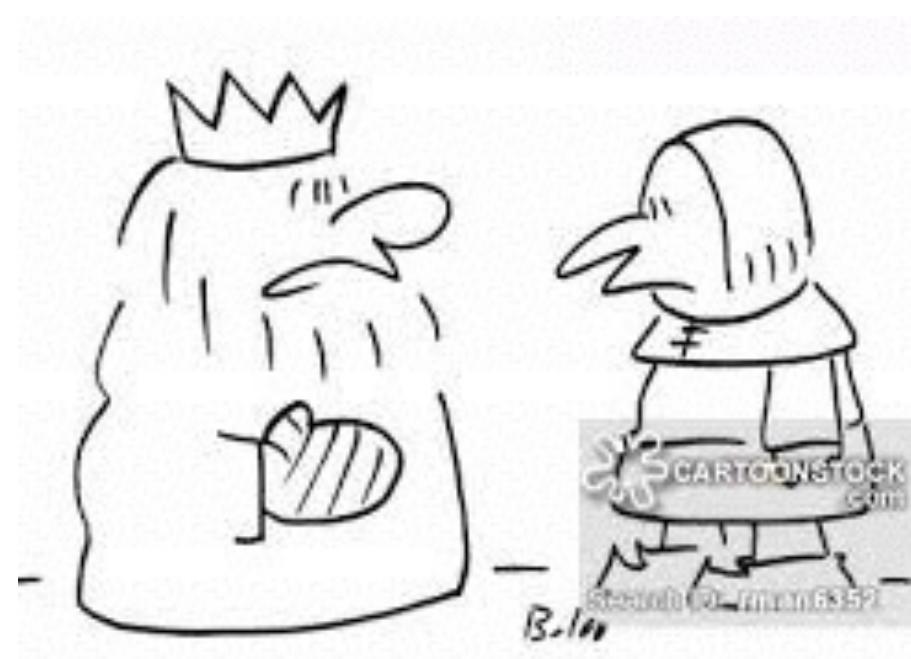
Federal Reserve Board

- Sets discount rates (the interest rate to borrow money from the government)
- Sets reserve requirements (how much money banks must have on hand)
- Buying / selling government bonds



Fiscal Policy

- **Fiscal Policy:** the impact of the federal budget (taxing and spending) on the economy.



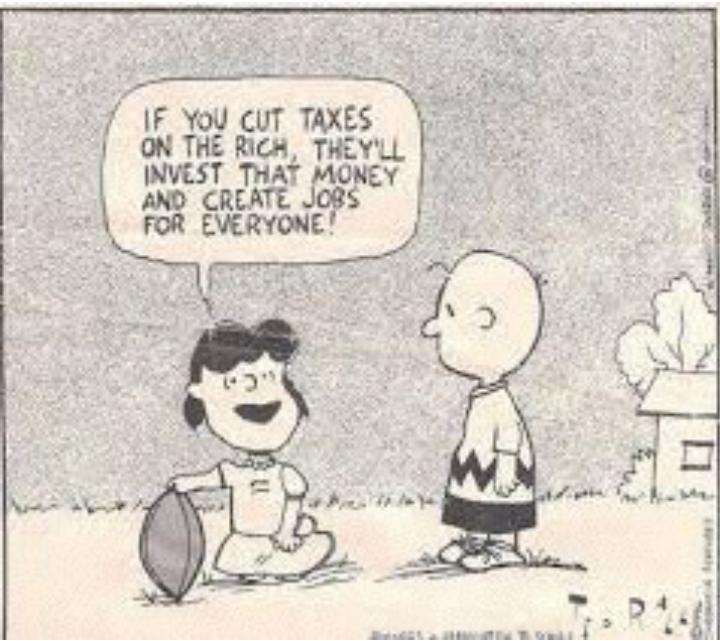
"I cut myself slashing the budget!"

Keynesian Theory

- Government spending and willingness to run a deficit help the economy weather its normal ups and downs.
- Keynesianism supports government efforts to increase the number of jobs and the demand for goods



Supply-Side Economics



- The theory that high taxes and too much government regulation stifle economic growth.
- Reduce taxation and government regulation so that people will work harder and businesses can reinvest profits, stimulating economic growth.

Elections and the Economy

- A poor economy causes presidential approval ratings to decline.
- Unemployment rates affect elections.
- Retrospective voters decide based on how well they have done recently.



Obstacles to Controlling the Economy

- The budget is prepared in advance and policies may not impact the economy for several years.
- Some benefits are indexed for inflation, which makes it hard to control their growth.
- Foreign problems can affect our economy.
- The economy is impacted by decisions of private companies and investors.



Globalization

- Mergers and acquisitions have created MNCs.
- Corporations battle for profits in the new technology economy.
- Government must find ways to control the excess power while maintaining American competitiveness in the global economy.

Governmental intervention and regulation

Economic

- FDIC (1933) FDR set by Congress in 1934 was to insure deposits up to \$2,500
- Glass_Steagall (1933) Separating commercial and investment banking.
- SEC (1934) Ind. Agency that enforces securities laws e.g. Stocks bonds
- NLRB (1935) supervises elections for labor union representation and can investigate and remedy unfair labor practices.

- CONGRESS PASSES CONTINUING RESOLUTIONS TO KEEP THE GOVERNMENT GOING UNTIL IT PASSES A NEW BUDGET.
- OMNIBUS BUDGET BILLS OFTEN CONTAIN POLICIES THAT CAN'T PASS ON THEIR OWN.



Governmental Intervention/Regs contd.

- Clean air act (1970) Supervised by epa most comprehensive air quality reg in the world
- Water pollution act (1972) Becomes “clean water act” restore and maintain the chemical, physical, and biological integrity of the nation's waters
- Endangered Species act (1973) Protects species that are going extinct and also importantly the habitats that those named species live in