

Guided Reading Activity

Monetary Policy

Lesson 3 *Economics and Politics*

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. Changing Nature of Economic Policy

Main Idea: The Great Recession offered an opportunity to test different approaches to healing a failing economy. The severity of the downturn made economists question earlier decisions about discretionary spending, monetarism, and supply-side economics. Monetary policy was harnessed to address the recession.

1. The Great _____ began in December 2007 and lasted 18 months, with a 4.5% _____ in GDP.
2. One reason for the decline of discretionary _____ policies is the _____ that occurs when political parties oppose each other's budgets.
3. _____ policy, which is the domain of the Fed, became popular after discretionary fiscal policy declined in popularity. This is because it was believed to be less _____ and could be implemented with minimal delays.
4. _____-side policies gained popularity because they involved shrinking government, _____ taxes, and reducing regulations, but these policies were not designed to deal with _____ - _____ fluctuations of the business cycle.
5. In the banking sector, there was almost a complete meltdown of _____; banks were unwilling to lend because they worried about being _____, and businesses couldn't borrow to cover their bills.
6. The Troubled _____ Relief Program used government money to buy bad loans and _____ held by banks.

Guided Reading Activity *cont.*

Monetary Policy

7. During the Great Recession, a new tool called _____ easing enabled the Fed to buy _____ securities from private banks.
8. Training of the unemployed and other _____ fiscal policies played a major role in _____ the economy.

B. Economics and Politics Today

Main Idea: Economic policies and theories are born out of the conditions of their time. As conditions change, new economic and political policies may be formulated to address these new situations.

1. The baby _____ will pose new economic challenges as they begin to _____.
2. The _____ of Economic Advisers devises economic strategies and advises the _____ on economic matters.
3. Economic _____ help economists and politicians understand and analyze the economy.

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the following questions.

How does the approaching retirement of the baby boomers affect the U.S. economy? What do you think should be done to help the country provide needed and promised retirement benefits, such as Social Security, to this generation of retirees? Explain your answer, but keep in mind that any changes you suggest to programs for the elderly may well affect you when it is your turn to retire.
