Section 4: Guided Reading and Review

Monetary Policy and Macroeconomic Stabilization

A. As You Read

As you read Section 4, complete the following sentences.

1. The cost of borrowing or having money is the ______.
2. If the money supply is high, interest rates will be ______.
3. Lower interest rates give firms more opportunities for ______.
4. The Fed may follow an easy money policy when the macroeconomy is experiencing a ______.
5. The Fed may follow a tight money policy when the macroeconomy is experiencing a ______.
6. The goal of stabilization policy is to smooth out fluctuations in the ______.
7. If expansionary policies take effect while the macroeconomy is already expanding, the result could be higher ______.
8. One reason for inside lags is that it takes time to ______.
9. A second reason for inside lags is that it can take additional time to ______.
10. Monetary policy can be put in place almost immediately by the ______.
11. The outside lag can be relatively short for ______ policy.
12. Outside lags for monetary policy can be lengthy because they primarily affect ______.
13. We rely more on the Fed to combat the business cycle because fiscal policy is often delayed by ______.
14. Economists who usually recommend enacting fiscal and monetary policies believe that economies ______.

B. Reviewing Key Terms

Define the following terms.

15. monetarism ______
16. easy money policy ______
17. tight money policy ______
18. inside lag ______
19. outside lag ______