

14.15: Putting It Together- Policy Application

The goal of this module was to give you an understanding of the strengths and weakness of fiscal and monetary policy to determine an appropriate stabilization policy for a given macroeconomic situation.

You learned how to:

- Explain the Keynesian approach to a given macro problem, and how they would respond to criticisms of their approach.
- Explain the Neoclassical approach to the same problem, and how they would respond to criticisms of their approach.
- Incorporate both policy approaches to synthesize a reasonable response to a specific real world problem.

watch It

Watch these two videos to see contrasting opinions about what factors led to the financial crisis in 2007 and 2008. Consider both the Keynesian and neoclassical (explained as Hayek in the video) perspectives that you learned about in this module and analyze what changes might have been made to avoid the financial crash in 2007.

A link to an interactive elements can be found at the bottom of this page.

A link to an interactive elements can be found at the bottom of this page.

The real world is complicated. Both Keynesian and Neoclassical economist have insights to offer. Citizens expect government to “fix” problems in the macroeconomy, but the tools the government has to work with are somewhat blunt rather than precise instruments. Economists have a better sense of how to nudge the trajectory of the economy over the long term, than to accurately offset every short term up and down the economy experiences. This means that while government has some ability to address macro difficulties, it needs to be sure it does more good than harm.

The Fed has done a respectable job of controlling inflation over the last 30 years. We should continue to allow them to do that. fiscal policy is probably not a good tool to address a small recession, especially given the lags involved. Monetary policy could be loosened a bit, but sometimes the economy is better left to its own devices because government policy lacks precision. But in the case of a major downturn, like the Great Recession, it makes sense to use fiscal policy to help the economy recover and get people back to work. Even with lags, fiscal policy will likely help when it’s needed.

Contributors and Attributions

CC licensed content, Original

- **Authored by:** Steven Greenlaw and Lumen Learning. **License:** [CC BY: Attribution](#)

CC licensed content, Shared previously

- Video: The 2007 Financial Crash . **Provided by:** BBC. **Located at:** <https://youtu.be/koyWflwgmV0>. **License:** [CC BY-NC-ND: Attribution-NonCommercial-NoDerivatives](#)
- Video: The Federal Reserve and the Financial Crisis. **Provided by:** BBC. **Located at:** <https://youtu.be/MaAWQInLLzM>. **License:** [CC BY-NC-ND: Attribution-NonCommercial-NoDerivatives](#)

14.15: Putting It Together- Policy Application is shared under a [not declared](#) license and was authored, remixed, and/or curated by LibreTexts.