

## 14.1: Why It Matters- Policy Applications

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Why apply fiscal and monetary policies in macroeconomic situations?



**Figure 1.** It's finally time to apply the concepts you've learned about fiscal and monetary policy.

The module really ties together everything we've learned about macroeconomics. In earlier modules we introduced the concepts of fiscal and monetary policy. In this module, we examine the two types of policy in more detail, incorporating all the pros and cons of the real world. By extension, we will be evaluating the policy prescriptions of Keynesian and neoclassical economics. As you work through this module, use the following questions to guide your thinking:

- Under what circumstances do fiscal and monetary policy work well, or not so well, in managing the economy?
- For the activist Keynesians, what are the limits to fiscal and monetary policy that you would endorse, and why?
- For the laissez-faire neoclassicals, what is the minimalist fiscal and monetary policy that makes sense, and why?
- How is macroeconomic policy in the real world more complicated than in theory?

Suppose you are asked to provide guidance about the macro economy in a given situation. Knowing what you know about the strengths and weaknesses of using fiscal or monetary policy, what would you recommend? For example, suppose after a period of solid economic growth, low unemployment, and modest inflation, the economy slows down a bit and unemployment shoots up several percentage points. What, if anything, should be done about that?

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