



# Snacks—The Monetary and Fiscal Policy Two Step

**Interested in an activity designed for middle and high school to help students identify and examine the differences between monetary and fiscal policy? Check out the Monetary and Fiscal Policy Two Step, an activity for civics and economics classes!**

## The Monetary and Fiscal Policy Two Step

An exercise designed to distinguish the differences between monetary and fiscal policy

**CEE Content Standard: 20**

**NCSS Content Strand: 7**

**Audience:** Middle School, Grades 7-8  
High School, Grades 9-12

### Objectives:

- Students will be able to identify the differences between monetary and fiscal policy.
- Students will examine quotes from news sources and determine whether the quotes reference monetary or fiscal policy.

### Materials:

- An overhead copy of Teacher Visual: Fiscal & Monetary Policy: What's the difference?
- A copy of the Teacher Resource: Monetary and Fiscal Policy Quotes cut into strips
- Ten self-adhesive wall sheets or ten poster boards
- 2-3 red markers and 2-3 green markers at each station
- 5 small post-it notes per student
- Soft music to help identify transitions

### Prerequisites and Teaching Tips:

The following is a reinforcement activity designed to supplement teacher instruction of monetary and fiscal policy. Prior to beginning the activity, consider using the Federal Reserve Bank of Richmond's *Myth Understandings* video that highlights the differences between monetary and fiscal policy as a quick review. The video can be found at <http://www.youtube.com/watch?v=rWNlw0IkQEU>.

### Procedure:

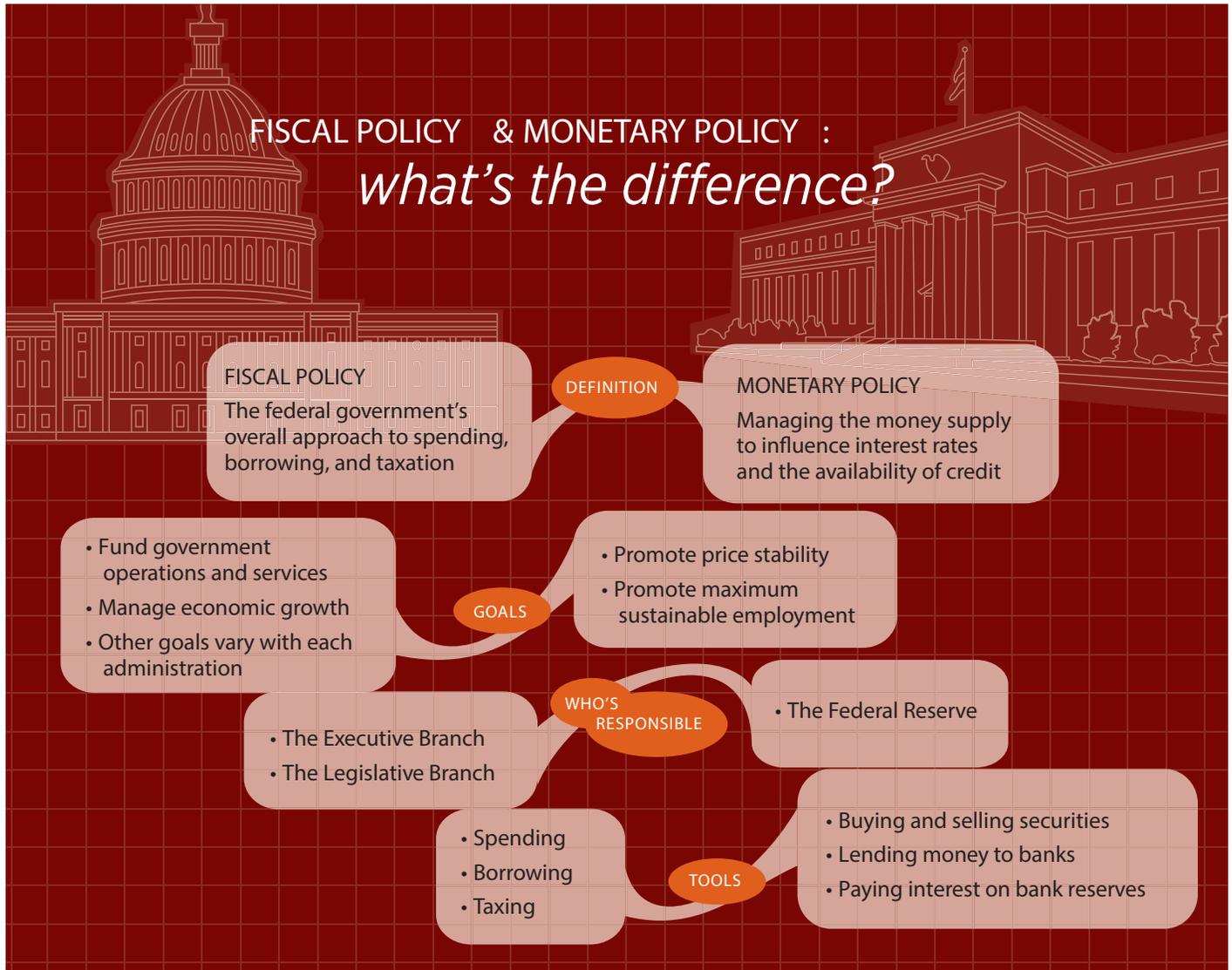
1. Tape or paste each strip from the Teacher Resource document onto the top of one of the wall adhesive sheets or poster boards.
2. Attach the wall adhesive sheets or poster boards onto stations throughout your classroom. These sheets will later be posted on the wall in front of the classroom.
3. Direct students to stand beside one of the four classroom walls.
4. Distribute 5 post-it notes to each student.

5. Share with students that today you are going to lead them in a discussion and exercise called the "The Monetary and Fiscal Policy Two Step" to identify the differences between monetary and fiscal policy.
6. Explain to students that they will evaluate quotes from several news sources from 2010 through 2012. Students will read the quote and determine whether the quote is about fiscal policy, monetary policy or both.
7. Tell students that if the quote refers to monetary policy, they will make a green dot on one of their post it notes, if it refers to fiscal policy they will make a red dot on the post it note, and if it refers to both they will make one of each. Explain to students that they will need to write a sentence explaining their rationale in classifying the quotes as monetary or fiscal policy. Direct students to post their responses on the poster board or adhesive sheet with their response facing down so that other students cannot see their responses.
8. Next, display the Teacher Visual and give the students two minutes to study the visual. Have students pay particular attention to the differences in monetary and fiscal policy.
9. Share with students that you will play a little mood music while they are visiting each station, and that when you stop the music, they are to move onto a new station.
10. Tell the students to proceed to the first station. Begin the background music.
11. Allow the students to spend 3-5 minutes at each station. When time is up, stop the music and instruct students to proceed to the next station.
12. Repeat this process approximately 5 times.
13. Ask that one student from each station post the wall sheet or poster board at the front of the classroom, and to turn over the post-it notes adhered to the poster board or wall adhesive sheet.
14. Direct students to go back to their desks. Lead a class discussion by reviewing each quote to determine what most students selected. Read examples of student responses to determine whether the class agrees.
15. A sample key is provided to help direct class discussion, provide possible student responses, and to correctly identify policy or policies referenced.



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## Teacher Visual: Fiscal Policy and Monetary Policy: What's the Difference?



Source: Federal Reserve Bank of Richmond 2011 Annual Report (p.6)  
[www.richmondfed.org/publications/research/annual\\_report/2011/ar2011.cfm](http://www.richmondfed.org/publications/research/annual_report/2011/ar2011.cfm)



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## Sample Discussion Framework and Key

*“Observers... speculate what may happen to the American economy if lawmakers implement similar austerity measures to tackle the deficit quickly. Many economists ... have instead said officials need to get the economy on a long-term sustainable path without cutting too much in the short term and putting the economy back in a ditch.”<sup>1</sup>*

### Fiscal Policy

**The quote refers to fiscal policy even though the Chairman of the Federal Reserve is mentioned. Economists are recommending that the executive and legislative branches need to be careful when cutting government spending, a fiscal policy tool, because it might limit economic growth.**

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*“...The Fed has identified achievement of ‘substantial’ improvement in the labor market outlook as its main criterion for ending asset purchases. Beyond that, the FOMC has set a 6.5% unemployment threshold for starting to raise the federal funds rate.”<sup>2</sup>*

### Monetary Policy

**The Fed refers to the Federal Reserve System, the Central Bank of the United States. The FOMC is the Federal Open Market Committee, the group responsible for implementing monetary policy.**

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*“Several... policymakers recently have suggested that they’re inclined to support more bond purchases if the ...economy doesn’t pick up.”<sup>3</sup>*

### Monetary Policy

**The purchase of bonds (the buying of securities) is a tool used by the Federal Reserve to promote stable prices and sustainable economic growth.**

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*“The plan Obama sent to Congress today asks for more money for jobs, highways and bridges, schools, student aid and manufacturing research as well as higher taxes for corporations, banks and oil, natural gas and coal companies.”<sup>4</sup>*

### Fiscal Policy

**This quote offers some examples of items in President Obama’s Administration budget plan for 2013.**

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*“...Officials decided to announce they would keep interest rates near zero until the unemployment rate drops to 6.5%.”<sup>5</sup>*

### Monetary Policy

**The quote mentions policy actions aimed at interest rates.**

*“The 2013 budget ... included job-creation initiatives for infrastructure, job-training and innovation”. To offset the cost, it “called for raising \$1.5 trillion over 10 years from the wealthiest taxpayers and from closing some corporate tax breaks, chiefly for oil and gas companies.”<sup>6</sup>*

### Fiscal Policy

**This quote offers some examples included in the 2013 budget and reflects elements of fiscal policy.**

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*“The House ... laid down a bold but risky election-year marker... unveiling a budget proposal that aims to tame the national debt by reshaping Medicare and cutting deeply into Medicaid, food stamps and other programs for the poor, while reshuffling the tax code to sharply lower rates”<sup>7</sup>*

### Fiscal Policy

**The budget proposal outlined by members of the House of Representatives mentions spending cuts and lowering tax rates, tools of fiscal policy.**

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*“...The Fed will likely announce Thursday that it will buy more Treasury... bonds to lower long-term interest rates and stimulate economic activity. Yet they warn that uncertainty among businesses and consumers over looming federal government tax increases and spending cuts on Jan. 1 is likely to limit the benefits of any stimulus.”<sup>8</sup>*

### Both Monetary and Fiscal Policy

**This quote refers to buying government securities to influence interest rates which is monetary policy. The quote also mentions fiscal policy tax increases and spending cuts.**

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*“Mr. Bernanke has often defended Fed actions against domestic critics, who argue the policy of keeping interest rates near zero while ramping up asset purchases hurts savers and risks future inflation.”<sup>9</sup>*

### Monetary Policy

**This quote refers to monetary policy action aimed at interest rates.**

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*“Even if the tax increases hit in January, families might not notice the incremental loss of income in the near term, economists said. Households might temporarily dig into savings to maintain their spending on the gas, food, housing and other consumer goods, mitigating the impact the tax increases might have on the broader economy.”<sup>10</sup>*

### Fiscal Policy

**This quote refers to the potential impact of tax increases, a tool of fiscal policy.**



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## Resources

- <sup>1</sup> Levine, D. (2012). U.K. austerity a 'cautionary tale' for U.S. Marketwatch.com. Retrieved on December 9, 2012 from [http://articles.marketwatch.com/2012-12-05/economy/35612548\\_1\\_british-economy-american-economy-austerity-measures](http://articles.marketwatch.com/2012-12-05/economy/35612548_1_british-economy-american-economy-austerity-measures)
- <sup>2</sup> Beckner, S. (2013, February 5). Market News International: Federal Reserve State of Play. Dowjones.com. Retrieved on February 5, 2013, from <http://frb.ewb.dowjones.com/FRB/Article/default.aspx?an=MARNEW0020130205e925000jb&FeedTypeID=4&aid=160425>
- <sup>3</sup> Davidson, P. (2012, August 1). Fed keeps monetary policy on hold, disappointing markets. USAToday.com. Retrieved on December 9, 2012, from <http://usatoday30.usatoday.com/money/economy/story/2012-08-01/federal-reserve-august/56656024/1>
- <sup>4</sup> Bass, F., & Lynch, S. (2012). Obama budget unique source for 3 trillion. Bloomberg.com. Retrieved on December 10, 2012, from <http://www.bloomberg.com/news/2012-02-13/obama-budget-proves-unique-with-no-similar-source-for-3-trillion-spending.html>
- <sup>5</sup> Hilsenrath, J. (2012, December 30). Gauging the guidance that models give the Fed. Online.wsj.com. Retrieved on February 5, 2013, from <http://online.wsj.com/article/SB10001424127887324461604578193363828299832.html>
- <sup>6</sup> New York Times Staff Writers. (2012, September 14). Times Topics: The federal budget. NYTimes.com. Retrieved on December 10, 2012, from [http://www.topics.nytimes.com/top/reference/timestopics/subjects/f/federal\\_budget\\_us/index.html](http://www.topics.nytimes.com/top/reference/timestopics/subjects/f/federal_budget_us/index.html)
- <sup>7</sup> Helderman, R. & Montgomery, L. (2012, March 20). GOP budget plan cuts deeply into domestic programs, reshapes Medicare, Medicaid Washingtonpost.com. Retrieved on January 31, 2013, from [http://www.washingtonpost.com/business/economy/gop-budget-plan-cuts-deeply-into-domestic-programs-reshapes-medicare-medicaid/2012/03/20/gIQAxFbQPS\\_story.html](http://www.washingtonpost.com/business/economy/gop-budget-plan-cuts-deeply-into-domestic-programs-reshapes-medicare-medicaid/2012/03/20/gIQAxFbQPS_story.html)
- <sup>8</sup> Mullaney, T., Davidson, P. & Hansen, B. (2012, September 9). Economists see Fed action likely, with little benefit. USAToday.com. Retrieved on December 10, 2012, from <http://usatoday30.usatoday.com/money/economy/story/2012-09-09/jobs-growth-unemployment-fed/57720352/1>
- <sup>9</sup> Reuters. (2012, October 14). Bernanke says Fed policy could benefit global economy. NYTimes.com. Retrieved on December 10, 2012, from <http://www.nytimes.com/2012/10/15/business/bernanke-defends-fed-from-claims-it-is-being-selfish.html>
- <sup>10</sup> Lowery, A. (2012, October 9). Fiscal cliff may be felt gradually, analysts say. NYTimes.com. Retrieved on December 10, 2012, from <http://www.nytimes.com/2012/10/10/us/fiscal-cliff-may-be-felt-gradually-analysts-say.html>



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### Monetary and Fiscal Policy Quotes

**“Observers... speculate what may happen to the American economy if lawmakers implement similar austerity measures to tackle the deficit quickly. Many economists ... have instead said officials need to get the economy on a long-term sustainable path without cutting too much in the short term and putting the economy back in a ditch.”**



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### Monetary and Fiscal Policy Quotes

**“...The Fed has identified achievement of ‘substantial’ improvement in the labor market outlook as its main criterion for ending asset purchases. Beyond that, the FOMC has set a 6.5% unemployment threshold for starting to raise the federal funds rate.”**



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**“Several... policymakers recently have suggested that they’re inclined to support more bond purchases if the ...economy doesn’t pick up.”**

**Source:** Davidson, P. (2012, August 1). Fed keeps monetary policy on hold, disappointing markets. USAToday.com. Retrieved on December 9, 2012, from <http://usatoday30.usatoday.com/money/economy/story/2012-08-01/federal-reserve-august/56656024/1>



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**“The plan Obama sent to Congress today asks for more money for jobs, highways and bridges, schools, student aid and manufacturing research as well as higher taxes for corporations, banks and oil, natural gas and coal companies.”**



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