Fiscal and Monetary Policy Combinations Activity

For this activity we will split the class into six groups. Half of the groups will be “the government” and half the groups will be the “Federal Reserve.” We will give each group a sheet of blank paper to write on. There will be three different economic situations given to the students to work with (one situation for each team of government and Fed). The students will also be given a set of eight index cards with “actions” on them. Four of the action cards will contain monetary policy decisions and four will contain fiscal policy decisions.

In their groups, the students will have to determine if they are to use fiscal or monetary policy. Once a decision is made, they will look at the economic situation and determine which actions are appropriate. They will tape the index cards with the decisions they’ve made on the piece of paper. On the top of the paper the students will write the economic situation they are given.

After about 10 minutes to complete this part of the exercise, the students will be asked to find the team that has the same economic situation as them. Once the teams are paired up with a government and a Fed for each situation, we will ask them to discuss the decisions they’ve made and how they affect the economy. As a team the groups will decide if they want to implement all of the policy decisions they’ve made or just some of them. They will choose from the index cards of both fiscal and monetary policy and design a unique set of actions. We will give each group a large post-it note and they will have the task of taping their new combined decisions on the post-it. On the post-it note we will also have the students write what effects they think these decisions will have on the economy.

We will then have a brief discussion of why they chose the combinations they did, and why it is necessary for the Federal Reserve and the government to frequently act in similar manners (cooperate) to create effective stabilization in the economy. This discussion will include the possible effects of overcompensating in the economy and well as underestimating the economic situation. Lastly, we will discuss how fiscal policy can be accommodating to monetary policy.