

Expansionary Policy

An economic policy that seeks to expand the _____ to encourage economic growth or combat _____. One form of expansionary policy is fiscal policy, which comes in the form of tax cuts, rebates and increased government spending. Expansionary policies can also come from central banks, which focus on increasing the money supply in the economy.

Why use Expansionary Policy?

- Help jump start the economy during a _____
- This policy does come with risks:
 - Must time the money expansion properly to not cause inflation
 - Time lag between start of policy and economic impact
 - Legislators and bankers need to know when to stop.

Keynesian Theory

An economic theory stating that _____ in the marketplace and monetary policy is the best method of ensuring economic growth and stability.

Trickle Down Theory

An economic theory which states that _____ in companies and giving them _____ is the best way to stimulate the economy.

Contractionary Policy

A type of policy that is used as an economic tool by the country's central bank or finance ministry to _____. Contractionary policies are enacted by a government to reduce the money supply and ultimately the spending in a country.

This is done primarily through:

1. _____
2. Increasing reserve requirements
3. _____

This tool is used during high-growth periods of the business cycle, but does not have an immediate effect.

Why use Contractionary Policy?

- It will slow down _____
- This policy does come with risks:
 - FED interest rates are higher, so banks interest rates are higher, so your interest rates on loans are higher
 - _____
 - Banks can call on existing debt to make up for money shortage