

WHAT IF?

Money, Interest, And The Fed

You are an economic consultant for the U.S. government. They are preparing contingency plans for various problems that may occur in the economy and they need your help. Review each of the five scenarios below and indicate what the government could do to help the economy.

Your options:

- Raise/Lower Interest Rates
 - Increase/Decrease Money Supply
 - Raise/Lower Taxes
 - Increase/Decrease Government Spending
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SCENARIO 1

What if the economy continues to get better? Consumers, businesses and the government are spending money. GDP is growing rapidly and unemployment is at all-time lows.

What problem(s) might exist?

What could the government do about it?

SCENARIO 2

What if consumers become nervous about the economy and stop spending money. GDP growth slows down significantly.

What problem(s) might exist?

What could the government do about it?

SCENARIO 3

What if our economy falls into a recession? There is negative GDP growth for two consecutive quarters and things look pretty bad for the economy.

What problem(s) might exist?

What could the government do about it?

SCENARIO 4

What if we become involved in a new war in the Middle East? Prices skyrocket and consumers have trouble affording many of the goods and services which they need.

What problem(s) might exist?

What could the government do about it?

SCENARIO 5

What if we have a return of “stagflation” – when there is a recession (or stagnant economy) and high inflation?

What problem(s) might exist?

What could the government do about it?