A wooden desk with a yellow pencil and a clear plastic folder. The pencil is on the left, and the folder is on the right. The text "Economic Policymaking" is written on the folder in a bold, italicized font. Below it, "Chapter 17" is written in a plain font. The pencil has "NO 2 HB" written on it.

# ***Economic Policymaking***

Chapter 17

# Economic Systems



**Market Economy:** An economic system in which individuals and corporations, not the government, own the principle means of production, and wages and prices are set by supply and demand.

**Command Economy:** An economic system where the government makes all decisions about wages, prices and production.

**Mixed Economy:** An economic system in which the government is involved in economic decisions through its role as regulator, consumer, subsidizer, taxpayer, employer and borrower.

# SAFETY NET



# Measuring the Economy

- Unemployment and Inflation



<http://drawings.love.ecards.free.fr>

- Unemployment rate: Measured by the BLS, it is the proportion of the labor force actively seeking work but unable to find jobs.
- Inflation: The rise in prices for consumer goods (and decline in the value of a dollar).
- Consumer Price Index: The key measure of inflation determine by the price of a fixed basket of goods over time.

# Government and the Economy

- Elections and the Economy
  - A poor economy causes presidential approval ratings to decline.
  - Unemployment rates affect presidential elections.
  - Retrospective voters choose based on “what have you done for me lately”?
- Political Parties and the Economy
  - Republicans tolerate unemployment
  - Democrats tolerate inflation

# Instruments for Controlling the Economy



## Monetary Policy

- The manipulation of the supply of money in private hands. Too much cash and credit result in inflation.
- The money supply affects interest rates (increasing the money supply results in lower interest rates).
- The main policymaker is the Board of Governors of the Federal Reserve System- the “Fed.”

# Instruments for Controlling the Economy



## The Federal Reserve Board

- Sets discount rates (the interest rate to borrow money from the government)
- Sets reserve requirements (how much money banks must have on hand)
- Buying / selling government bonds

# Instruments for Controlling the Economy

## Keynesian Theory Versus Supply-Side Economics

- **Fiscal Policy:** the impact of the federal budget on the economy.
- **Keynesian Economic Theory:** Government spending and willingness to run a deficit help the economy weather its normal ups and downs.
- Keynesianism supports government efforts to increase the number of jobs and the demand for goods



# Instruments for Controlling the Economy

- Fiscal policy: Keynesian Versus Supply-Side Economics
  - **Supply-Side policy:** The theory that high taxes and too much government regulation stifle economic growth.
  - Reduce taxation and government regulation so that people will work harder and businesses can reinvest profits, stimulating economic growth.



# Obstacles to Controlling the Economy



- While the government has tools to influence the economy, the government cannot control the economy.
  - The budget is prepared in advance and policies may not impact the economy for several years.
  - Some benefits are indexed for inflation, which makes it hard to control their growth..
  - Foreign problems can affect our economy.
  - The economy is impacted by decisions of private companies and investors.

# Arenas of Economic Policymaking



- MNCs, Globalization and the Economy
  - Mergers and acquisitions have created MNCs.
  - Corporations battle for profits in the new technology economy.
  - Government must find ways to control the excess power while maintaining American competitiveness in the global economy.

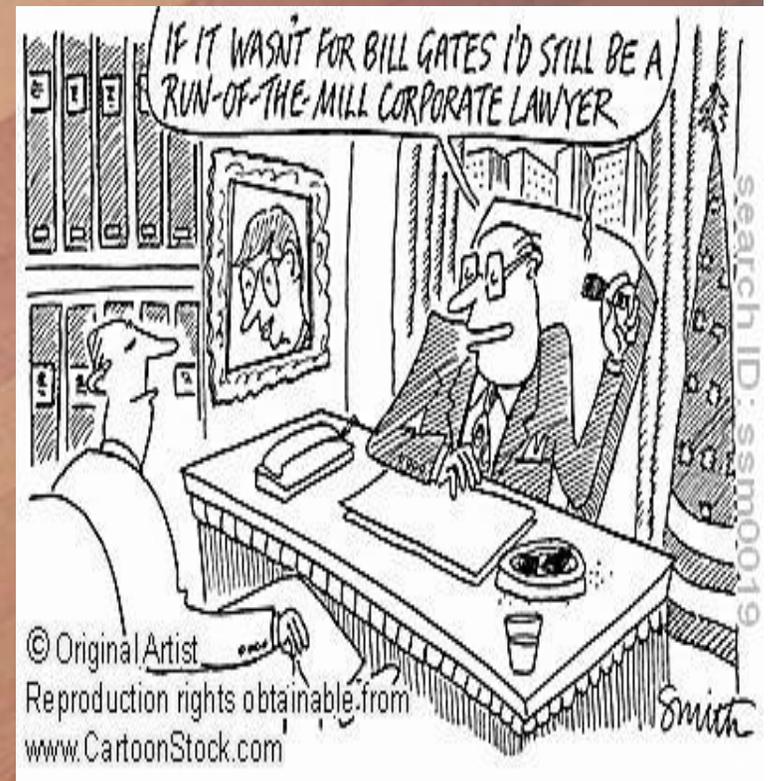
# Arenas of Economic Policymaking

## – Regulating Business.

- Antitrust policy: policies designed to ensure competition and prevent monopolies.
- Antitrust cases are lengthy and expensive

## – Benefiting Business.

- Government may loan businesses money (auto and bank bailouts)
- Government collects data that businesses use.



# Arenas of Economic Policymaking



- Policies Protecting Consumers
  - **Food and Drug Administration:** Created in 1913 and approves and regulates food and drugs sold in the U.S.
  - **Federal Trade Commission:** Regulates false and misleading trade practices, which now includes consumer lending practices.

# Arenas of Economic Policymaking

- Labor and Government
  - Government historically sided with business over labor unions.
  - National Labor Relations Board: regulates labor-management relations
  - Collective bargaining: union representatives and management determine pay and working conditions
  - **Taft-Hartley Act:** anti-union legislation that allows states to pass “right to work” laws. Employees cannot be required to join a union even in unionized companies.

