

Fiscal Policy

Fiscal policy refers to the different economic tools the government (usually federal government) has at its disposal to affect the broad economy. These tools are usually one of two types: tax or budget.

The government can either increase or decrease taxes, or it can increase or decrease spending (i.e. the budget). Generally, republicans try to stimulate the economy by cutting taxes; democrats try to stimulate the economy by increasing spending.

The other major economic tool policy makers have at their disposal to affect the economy is called monetary policy. Monetary policy is controlled by the Federal Reserve (i.e. the Fed). Monetary policy refers the Fed's ability to stimulate or cool off the economy by increasing or decreasing the money supply.