Dear President of the United States,

A fast rise in oil prices has occurred, creating an economic crisis. This is the worst that our nation has seen. Past and current unemployment rates, inflation rates, and GDP rates have confirmed this theory. Currently the rates are unemployment at 12.5%, inflation at 9%, and GDP has risen 13%. There have been times in the past where certain years have had higher rates such as 24.9% unemployment rate in 1933, 13.5% inflation rate in 1980, and in 1942 GDP had an 18.5% drop. These high rates have not ever occurred all at once, though, which is happening in this current situation. Evaluating this data proves that this is the worst economic crises to face this country. There are a few different options to help fix this mess we are in.

There are monetary policy options and fiscal policy options that can help fix this. After evaluating all of the options, it will be easy to make a decision on what plan to go with. Keeping all of the factors (unemployment, inflation, and GDP) in mind will help us create the plan that will be the best to fix the economy.

There are two different monetary policies with three different tools that affect them. The policies are expansionary monetary policy and contractionary monetary policy. The tools are knows as open market operations, reserve ratio, and discount rate.

Open market operations, reserve ratio, and discount rate are all somehow included in expansionary and contractionary monetary policy. Open market operations is the primary tool to manage money supply and what it does is buy and sell government securities, such as treasury bonds and bills, to commercial banks and general public. This increases or decreases the money supply. Reserve ratio is used infrequently but the process of it is that banks must meet a requirement set by the Federal Reserve System saying they will keep a certain percentage of each deposit. When the reserve requirement gets altered and it decreases then the money in circulation increases and when the reserve requirement increases, there is a decrease in money circulation. Discount rate is an interest rate in which the Federal Reserve System loans money to banks. An increase in discount rate decreases the money supply by decreasing borrowing and a decrease in discount rate increases money supply by increasing borrowing.

Expansionary monetary policy affects everyone in the same way. This policy increases the money supply when the economy is too slow with the three tools. To begin, open market operations buy securities. Buying securities injects money into the banking system to stimulate growth. There is also an unlikely chance of a reduction in reserve ratios in this policy. If reserve ratios decreased, money in circulation would increase. This policy also lowers the discount rate meaning there will be an increase in money supply. Expansionary monetary policy works through interest rates because when money supply increases which means there is more money so the price of borrowing falls and when the discount rate decreases, banks borrow more money and money supply increases. Increased spending stimulates production which reduces unemployment and increases GDP which increases income.

Contractionary monetary policy is the second monetary policy that can help us. This decreases the money supply if the economy is too fast. Money supply is decreased through open market operations selling securities, an unlikely chance of an increase in the reserve ratio, and a raise in interest rates. It decreases investment and slows down economic expansion. This policy is effective with rapidly increasing GDP and inflation.

As we can see, both monetary policies can be effective towards the crisis that is trying to be fixed. Expansionary monetary policy reduces unemployment but it also increases GDP, which we do not want. Contractionary monetary policy decreases GDP and inflation but it does not do anything with unemployment rates.

Moving on, we have fiscal policy options. There is expansionary fiscal policy and contractionary fiscal policy. There is also demand side emphasis and supply side emphasis.

Expansionary fiscal policy is used to stimulate a sluggish economy meaning high unemployment. It does this by increasing government spending and reducing taxation. Government spending or reduced taxes increases spending and demand for goods because production increases with increased demand and tax cuts for business stimulate production by reducing production costs. If the budget is balanced, increased government spending or reduced taxes creates a budget deficit.

Contractionary fiscal policy is used to slow down an over stimulated economy with high inflation and GDP rates. Decreasing government spending and increasing taxation can do this. If the budget becomes balanced, the reduced government spending or increase on taxes creates a budget surplus. This means that surplus slows economic growth by reducing spending, which slows production and decreases the demand for workers. As the demand slows, inflation rates lessen if the inflation is caused by demand-pull. If the inflation is caused by cost-push and the economy is slow, this policy will increase the sluggishness with little affect on prices.

Demand side emphasis stimulates the demand for goods. It focuses on changing consumers’ behavior. Supply side emphasis builds production capacity. It ensures maximum at full employment.

After looking into fiscal policies, expansionary and contractionary, we can see the difference between the two. Expansionary fiscal policy fixes high unemployment rates and lowers them through increasing spending and demand of goods. Contractionary fiscal policy fixes inflation and GDP by decreasing government spending and increasing taxes.

Now all sides of monetary and fiscal polices have been explored. Considering all sides, there are two policies, that put together, will really get this economy back on its feet. The two policies that will work the best to fix this economy are expansionary fiscal and expansionary monetary.

Expansionary monetary policy will decrease GDP, unemployment, and increase the money supply. Decreasing the discount rate will put money supply into the market. This will allow the banks to lower their interest rates and the public will be able to take more loans. Also, the government will buy more bonds and bills from the public. This shows open market operations and it increases the money supply. When it comes to the reserve ratio tool, it will not be changed. It is used infrequently anyways. Fiscal monetary policy will create programs for the unemployed workers who are actively seeking work. Also, if there are short-term jobs available, decreased taxes will help up the amount of workers so unemployment can decrease.

Obviously with any plan there are pros and cons. It may cost a lot but the debt in our country will really decrease while the programs an tax cuts help stimulate. The economy will benefit from the increased money supply and there will be decreased unemployment and GDP. This policy is going to raise inflation but that will happen in either policy. There will be cons with every plan but these two plans have the best outcomes.

The policies will help the unemployed and the retired. Those who are unemployed now have programs to aid in their job hunting. Tax cuts for senior citizens will help them live and not have to struggle by relying solely on their social security check.

Monetary and Fiscal expansionary policies are the best plans to go with for the worst economy we are seeing. Our high rates will decrease and plans will be made for those who are struggling. Thank you for your time.

Sincerely,

Brinlee Davis