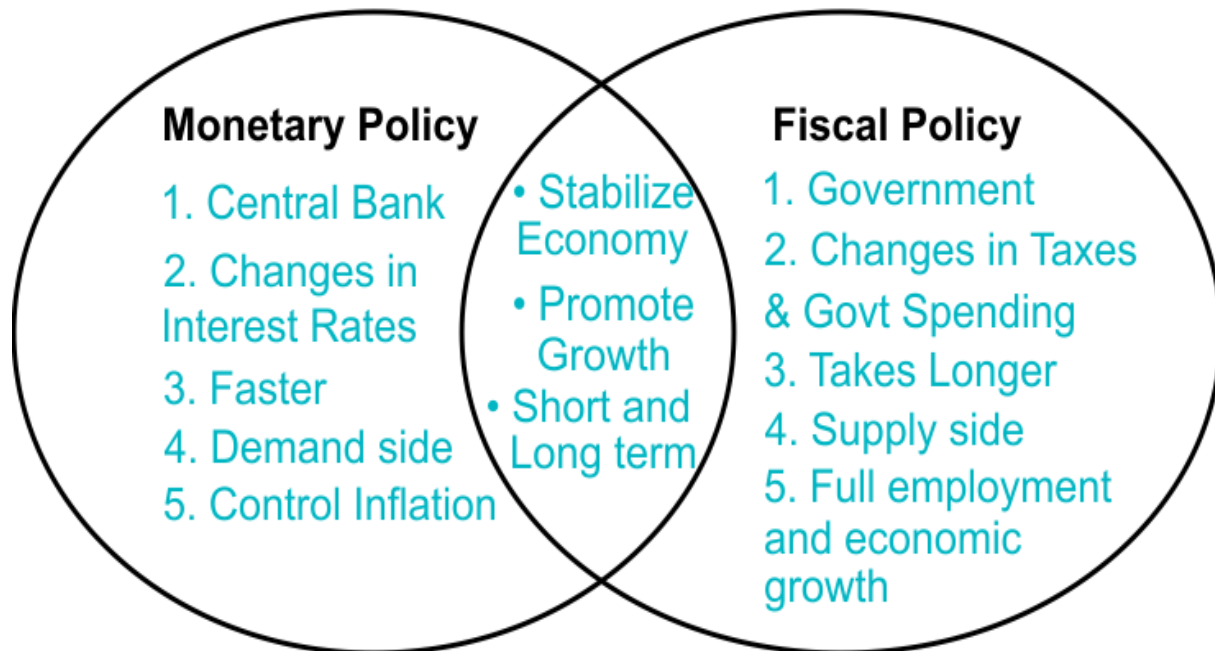


## **Managerial economics - 21UCY302**

### **FISCAL POLICY AND MONETARY POLICY**

Importance to policymakers in achieving macroeconomic goals and therefore stabilizing the economy are fiscal and monetary policies. Contrary to fiscal policy, which influences the level of government expenditure, level of taxation, and amount of borrowing directly, monetary policy basically manages money supply and interest rate conditions and subsequently credit conditions with the goal of price stability and achievement of growth.

### **Monetary Policy Vs Fiscal Policy**



#### **Fiscal Policy**

Fiscal policy is the process of influencing the economy through government expenditure and taxation. It involves government decisions concerning the amount of money the government needs to spend on public goods and services and how much revenue it needs to generate from both private individuals and business enterprises through taxation. The most important objectives of fiscal

policy are to foster [economic growth and development](#), rein in rising inflationary pressures, reduce unemployment of resources, and ensure sustainable fiscal-balance positions.

## Monetary Policy

Monetary policy is any action by a central bank—to include the Federal Reserve in the United States, the European Central Bank in the Eurozone, or the Bank of England in the UK—that manages an economy's [money supply](#), interest rates, and its resultant credit conditions. The basic goals are usually price stability—defined as low and stable inflation—and promotion of sustainable economic growth.

## Difference Between Fiscal and Monetary Policy

The two most centrally indirect means through which governments and central banks try to guide economic activity and hence stabilize it are fiscal and monetary policies. While the objectives of the policies, like growth promotion and keeping inflation in a tight rein, are the same, the mechanism by which they work differs, and different actors come into play.

Aspect	Fiscal Policy	Monetary Policy
Definition	Refers to government decisions on spending, taxation, and borrowing to influence economic activity.	Involves central bank actions to manage money supply, interest rates, and credit conditions.
Authority	Determined and implemented by government bodies (legislature and executive).	Implemented by the central bank (independence varies by country).
Objectives	Economic growth, Price stability, Employment levels, Income distribution	Price stability, Economic growth, Employment, Financial stability
Instruments	Government spending, Taxation policies, Borrowing and debt management	Open market operations, Discount rates, Reserve requirements
Impact on Economy	Direct impact on <a href="#">aggregate demand</a> and consumption. Long-term investment in infrastructure and social programs.	Indirect impact through interest rates and credit availability. Short-term adjustments to economic fluctuations.
Adjustment Speed	Often involves longer implementation periods due to legislative processes and budget cycles.	Can be implemented relatively quickly, with interest rate changes having immediate effects on the economy.

Flexibility	Less flexible in responding to short-term economic changes compared to monetary policy.	More flexible in adjusting to economic changes due to quicker implementation and reversibility.
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