Question 3

6 points

Part (a): 1 point

One point is earned for a correct definition of fiscal policy. Acceptable definitions include:

- Taxing and/or spending
- The budget

Part (b): 1 point

One point is earned for correctly describing a significant way the executive branch influences fiscal policy. Acceptable descriptions include:

- The president proposes/prepares the federal budget.
- The president signs/vetoes legislation (related to taxing, spending, and borrowing, not generic).
- The White House Office of Management and Budget (OMB) recommends the budget.

Part (c): 1 point

One point is earned for correctly describing a significant way the legislative branch influences fiscal policy. Acceptable descriptions include:

- Congress passes the federal budget.
- Congress acts on tax and spending legislation.
- The Congressional Budget Office (CBO) advises Congress on economic policies.

Part (d): 1 point

One point is earned for a correct definition of monetary policy. Acceptable definitions include:

- Regulating the money supply.
- Controlling inflation/deflation.
- Adjusting interest rates to regulate the economy.
- Adjusting bank reserve requirements.
- The cost of money.

Question 3 (continued)

Part (e): 2 points

One point is earned for each of two explanations of why the Federal Reserve Board is given independence in establishing monetary policy. Acceptable explanations include:

- It removes politics from monetary policy decision making.
- Congress/the president can abdicate responsibility for difficult decisions by delegating decision-making power.
- The Federal Reserve Board relies on expertise when making decisions.
- The Federal Reserve Board makes economic policies efficiently.

A score of zero (0) is earned for an attempted answer that earns no points.

A score of dash (—) is earned for a blank or off-task answer.

Write in the box the number of the question you are answering on this page as it is designated in the exam.

3 US

3A

a) Fiscal policy refers to the ~~federal~~ budget and revenue, or ~~p~~ ~~federal~~ taxing and spending.

b) The ~~pres~~ executive branch draws up and proposes a budget for each fiscal year, which is generally the basis for federal spending (though it is usually passed in altered form).

c) Congress (or state legislatures at the state level) ultimately controls fiscal policy; all bills for raising or appropriating money ~~are~~ must go through it.

d) Monetary policy is the ~~supp~~ amount of money in the market; it is used by the Fed to control interest rates.

e) One reason the Federal Reserve Board (or Fed) is given independence in monetary policy is to prevent political interference. For this reason the chairman is given a 10-year term rather than changing with each new president. ~~Another reason for the Fed's independence~~ He (or she) ~~He~~ ~~who~~ is supposed to be a technocrat rather than a political appointee. Another reason for the Fed's independence is to allow swift action. It is much easier for a small board to respond immediately to a problem or manage details than for a 535-member Congress.

Write in the box the number of the question you are answering on this page as it is designated in the exam.

3 US

3B 1

Fiscal policy regards the budget, the money brought in and spent during each fiscal year, the time from October 1 to September 30. The executive and legislative branches are responsible for setting fiscal policy. The executive branch is usually thought to be in control of money when it comes to budget surpluses and deficits. The executive branch sees ~~how~~ how money is being sent to states and works with congress to find an agreeable solution to the distribution of money. Congress influences fiscal policy by collecting taxes and appropriating them to agencies or by giving grants to the states.

Monetary policy concerns interest rates and the money supply. Since the federal reserve board is an independant regulatory agency, thus in control of regulating a sector of the economy, it sets some standards regarding interest rates, and how much money banks must have on hand as reserve, for example. They are given independance in regulating/establishing monetary policy because they are free from executive/legislative pressures and so monetary policy may be based a little

3 US

Write in the box the number of the question you are answering on this page as it is designated in the exam.

3B2

more on what the people want.

Fiscal and monetary policy both affect citizens and we can almost be sure that the public may be taken into account with the competing views of all the departments trying to establish this policy.

Write in the box the number of the question you are answering on this page as it is designated in the exam.

Q3 US

3C

Fiscal ~~[illegible]~~ and Monetary policies are both used by the Federal gov. to influence the U.S. Economy The executive and legislative branches share the responsibility of setting fiscal policies, while the Federal Reserve Board plays the primary role in setting up monetary policy.

A. A Fiscal policy is a policy sets up by the executive and legislative branch that effects the economy for the entire fiscal period

B. The executive branch influences fiscal policy because the executive branch is responsible for enforcing policies

C. The legislative branch influences fiscal policy because the legislative branch is responsible with coming up with the policy

D. Monetary policy is a policy that is set up by the FRB that effects the economy instantly

E. One reason the FRB is given the ~~[illegible]~~ independence of setting up monetary policy is because the FRB is only focused on money and the economy, and they usually know what they are doing unlike the executive & legislative branches, and because fiscal policy is seen by many to be more important than monetary policy.

Question 3

Overview

The overall intent of this question was for students to distinguish between fiscal and monetary policies. In addition to (a) defining fiscal policy, students were asked to describe how both the executive (b) and legislative (c) branches influence fiscal policy, as a way of assessing their knowledge of how these branches share policymaking responsibility. Students were also asked to (d) define monetary policy, and (e) explain two reasons why the major institution making monetary policy, the Federal Reserve Board, would be independent. This question linked the topics of public policy and major governmental institutions.

Sample: 3A
Score: 6

In part (a) the student earned 1 point for correctly defining fiscal policy as "taxing and spending."

In part (b) the student earned 1 point for correctly describing a significant way the executive branch influences fiscal policy: "The executive branch draws up and proposes a budget."

In part (c) the student earned 1 point for correctly describing a significant way the legislative branch influences fiscal policy through "bills for raising or appropriating money."

In part (d) the student earned 1 point for correctly stating, "Monetary policy is the amount of money in the market; it is used by the Fed to control interest rates."

In part (e) the student earned 1 point for correctly explaining that the Federal Reserve Board is given independence in establishing monetary policy because it takes politics out of monetary policy ("to prevent political interference"). The student earned a second point for also explaining that the Federal Reserve Board is given independence because it promotes efficiency ("to allow swift action").

Sample: 3B
Score: 3

In part (a) the student earned 1 point for correctly defining fiscal policy as "the budget."

In part (b) the student does not correctly describe a significant way the executive branch influences fiscal policy and therefore did not earn a point.

In part (c) the student does not correctly describe a significant way the legislative branch influences fiscal policy and therefore did not earn a point.

In part (d) the student earned 1 point for correctly stating, "Monetary policy concerns interest rates and the money supply."

In part (e) the student earned 1 point for correctly explaining that the Federal Reserve Board is given independence in establishing monetary policy because it takes politics out of the process ("they are free from executive/legislative pressures"). The student does not explain a second reason why the Federal Reserve Board is given independence and therefore did not earn the second point.

Question 3 (continued)

Sample: 3C
Score: 1

In part (a) the student does not correctly define fiscal policy and therefore did not earn a point.

In part (b) the student does not correctly describe a significant way the executive branch influences fiscal policy and therefore did not earn a point.

In part (c) the student does not correctly describe a significant way the legislative branch influences fiscal policy and therefore did not earn a point.

In part (d) the student does not correctly define monetary policy and therefore did not earn a point.

In part (e) the student earned 1 point for correctly explaining that the Federal Reserve Board is given independence in establishing monetary policy because the Board relies on expertise ("they usually know what they are doing"). The student does not explain a second reason why the Federal Reserve Board is given independence and therefore did not earn the second point.