Quick start

- What is monetary policy and who does it?

Scenario 1

	Year ago	Last ¼	This ¼
GDP	2100	2200	2260
CPI	227	221	205
UE rate	8%	7%	6%
Pvt. Invest	222	235	255

Scenario 1 answers

	Year ago	Last ¼	This ¼
GDP	2100	2200	2260
CPI	227	221	205
UE rate	8%	7%	6%
Pvt. Invest	222	235	255

GDP grew 7.6% in the past year (2260-2100, divided by 2100, times 100).
GDP is projected to grow 10.9% in the next year (2260-2200, divided by 2200, times 100, times 4).
Early to middle expansion.
CPI rate was -9.7% in the past year (205-227, divided by 227, times 100).
CPI rate is projected to be -29% in the next year (205-221, divided by 221, times 100, times 4).
GDP is going up, UE is going down, and I is going up, all good.
CPI going down – deflation – is bad. Essentially, we want to cause inflation to get inflation rate of 2%.
To do so, we put money in economy by buying bonds, and lower discount rate and reserve requirement.
If that's not enough, then expand economy fiscally by cutting taxes and increasing government spending.

Scenario 2

	Year ago	Last ¼	This ¼
GDP	2100	1750	1650
CPI	195	211	217
UE rate	8%	11%	12%
Pvt. Invest	222	185	145

Scenario 2 answers

	Year ago	Last ¼	This ¼
GDP	2100	1750	1650
CPI	195	211	217
UE rate	8%	11%	12%
Pvt. Invest	222	185	145

GDP rate was -21.4% in the past year (1650-2100, divided by 2100, times 100).
GDP rate is projected to be -22.9% in the next year (1650-1750, divided by 1750, times 100, times 4).
Middle contraction, and stagflation (high unemployment and high inflation at same time).
CPI grew 11.3% in the past year (217-195, divided by 195, times 100).
CPI is projected to grow 11.4% in the next year (217-211, divided by 211, times 100, times 4).
GDP is going down, UE is going up, and I is going down, all bad.
CPI going up – high inflation – is bad. We want to lower inflation rate to about 2%.
First, we must fix the inflation problem, using monetary policy to take money out of the economy.
We would sell bonds, and increase discount rate and reserve requirement.
Then we would expand economy fiscally by cutting taxes and increasing government spending.

Scenario 3

	Year ago	Last ¼	This ¼
GDP	2100	2098	1915
CPI	5%	4%	0%
UE rate	7%	7%	9.1%
Pvt. Invest	222	224	149

Scenario 3 answers

	Year ago	Last ¼	This ¼
GDP	2100	2098	1915
CPI	5%	4%	0%
UE rate	7%	7%	9.1%
Pvt. Invest	222	224	149

GDP rate was -8.8% in the past year (1915-2100, divided by 2100, times 100).

GDP rate is projected to be -34.9% in the next year (1915-2098, divided by 2098, times 100, times 4).

Early contraction.

CPI shows 5% inflation last year, 4% inflation last quarter, and 0% inflation this quarter.

GDP is going down, UE is going up, and I is going down, all bad.

CPI showing 0% inflation is worrisome. We want to raise inflation rate to about 2%.

We would expand economy monetarily by buying bonds, and lowering discount rate and reserve requirement.

We would expand economy fiscally by cutting taxes and increasing government spending.

Scenario 4

	Year ago	Last ¼	This ¼
GDP	2100	2147	2163
CPI	2%	2%	2%
UE rate	4%	4%	4%
Pvt. Invest	222	229	231

Scenario 4 answers

	Year ago	Last ¼	This ¼
GDP	2100	2147	2163
CPI	2%	2%	2%
UE rate	4%	4%	4%
Pvt. Invest	222	227	229

GDP grew 3% in the past year (2163-2100, divided by 2100, times 100).

GDP rate is projected to grow 3% in the next year (2163-2147, divided by 2147, times 100, times 4).

Middle expansion.

CPI shows 2% inflation last year, 2% inflation last quarter, and 2% inflation this quarter. That's our goal.

GDP is steady at 3%, UE is steady at 4%, and I is going up, all good.

This economy appears to be in good shape, and we may not want to do anything.

Scenario 5

	Year ago	Last ¼	This ¼
GDP	2100	2300	2415
CPI	200	210	220
UE rate	4%	3%	2%
Pvt. Invest	300	315	330

Scenario 5 answers

	Year ago	Last ¼	This ¼
GDP	2100	2300	2415
CPI	200	225	300
UE rate	4%	3%	2%
Pvt. Invest	300	315	330

GDP grew 15% in the past year (2415-2100, divided by 2100, times 100).

GDP is projected to grow 20% in the next year (2415-2300, divided by 2300, times 100, times 4).

Early to middle expansion.

CPI grew 50% in the past year (300-200, divided by 200, times 100).

CPI rate is projected to grow 133% in the next year (300-225, divided by 225, times 100, times 4).

GDP is going up extremely fast, UE is beneath full employment, and I is going up quickly.

This economy is growing too fast. We need to slow it down and get inflation under control at 2%.

To do so, we remove money from economy by selling bonds, and raise discount rate and reserve requirement.

If that's not enough, then contract economy fiscally by raising taxes and decreasing government spending.