

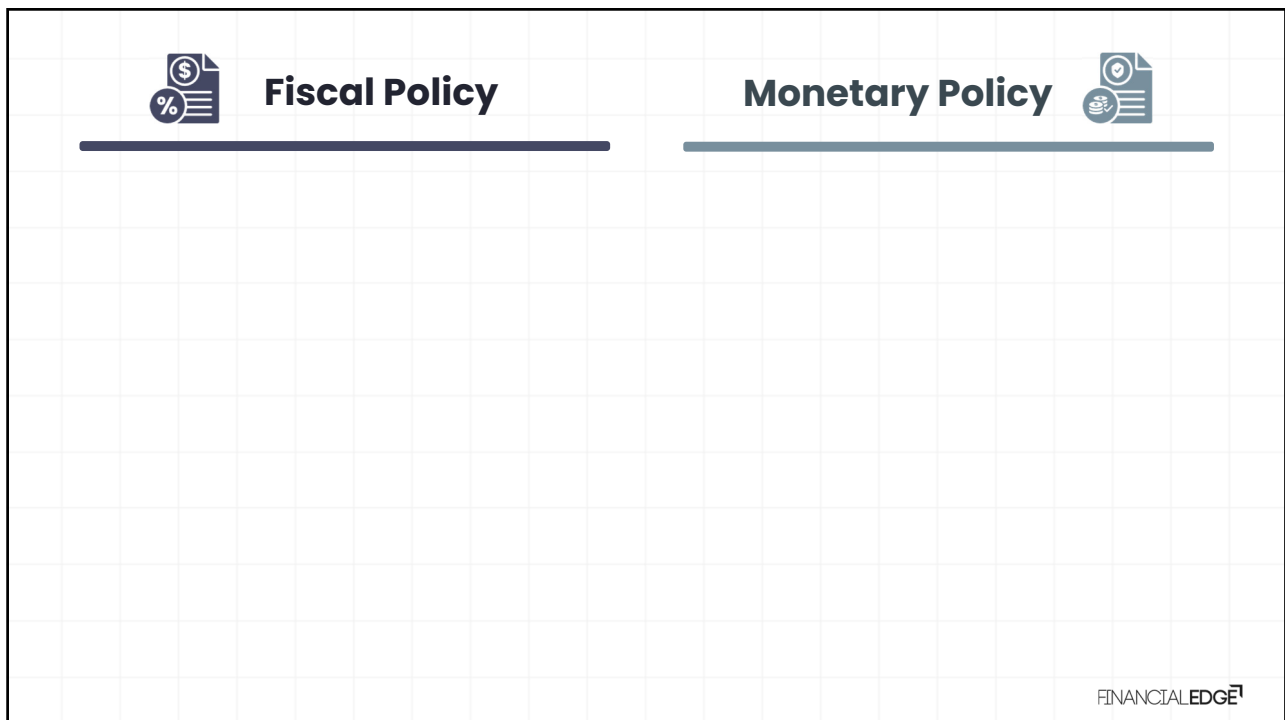
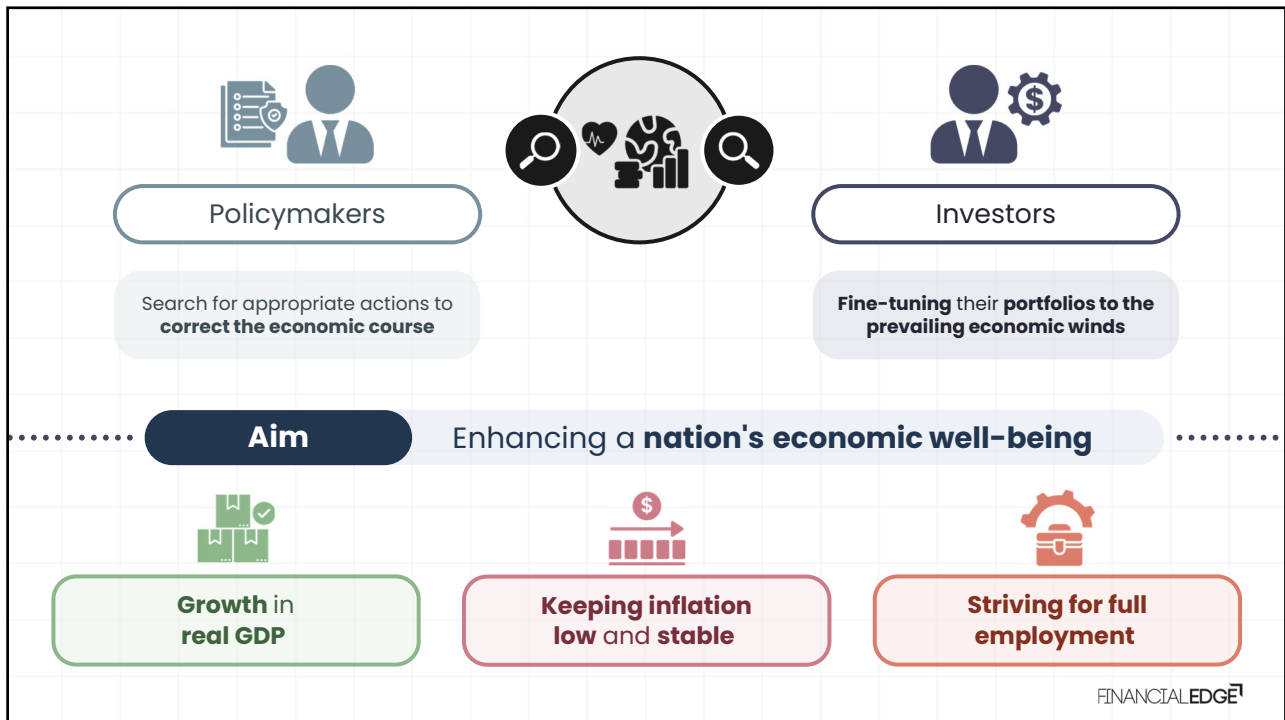


# Macroeconomics - Fiscal and Monetary Policy

FINANCIALEDGE<sup>7</sup>

## Fiscal and Monetary Policy

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## Fiscal Policy

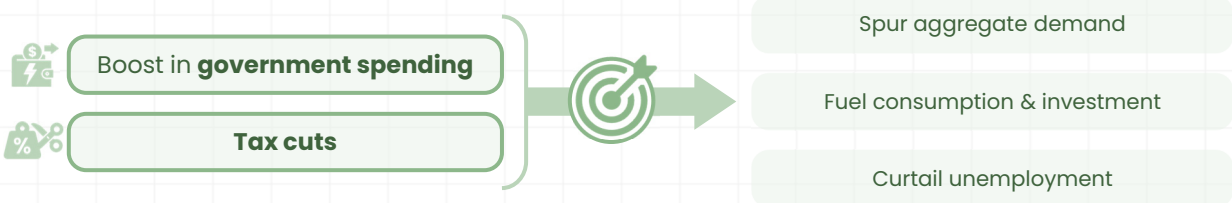
Government's approach to using its **budgetary tools**

Spending

Taxation

1

### Expansionary Fiscal Policy



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## Fiscal Policy

Government's approach to using its **budgetary tools**

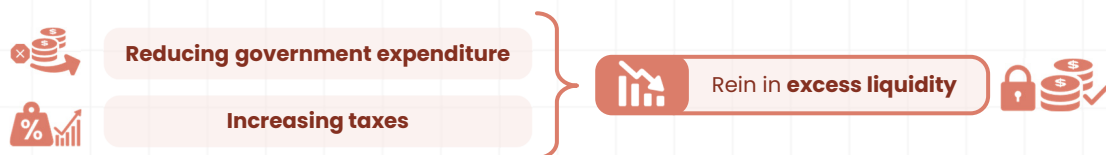
Spending

Taxation

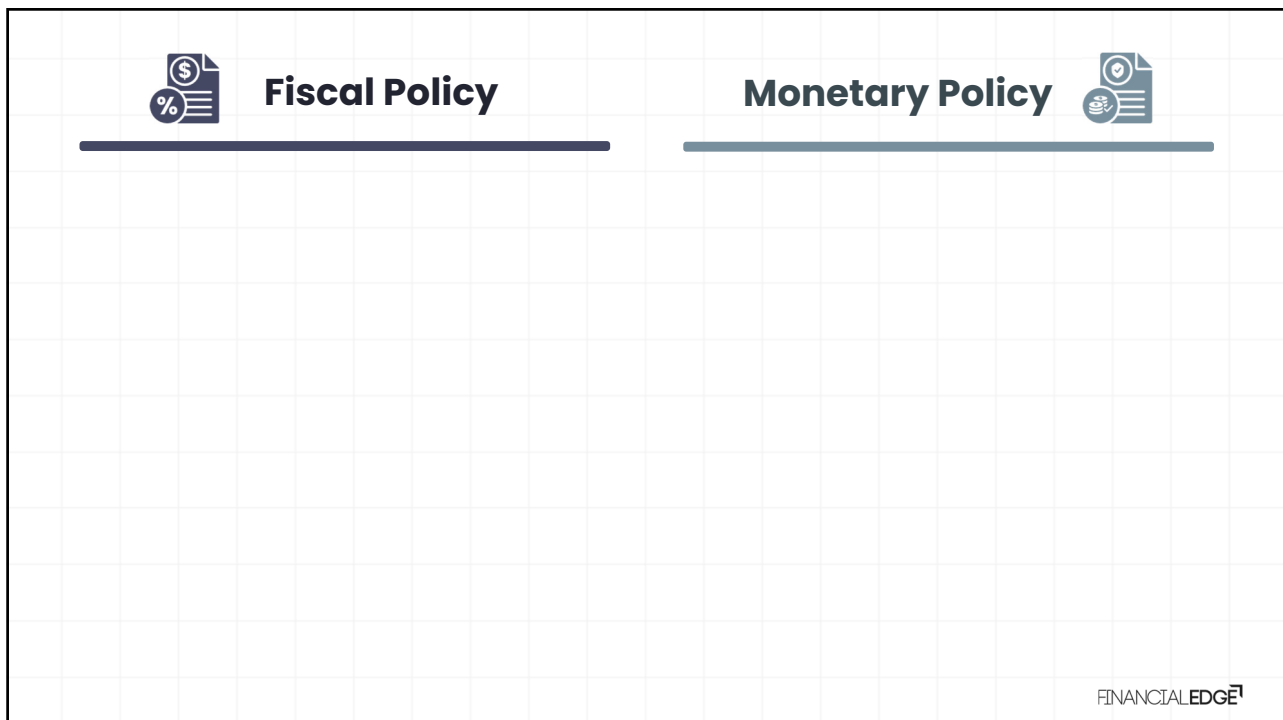
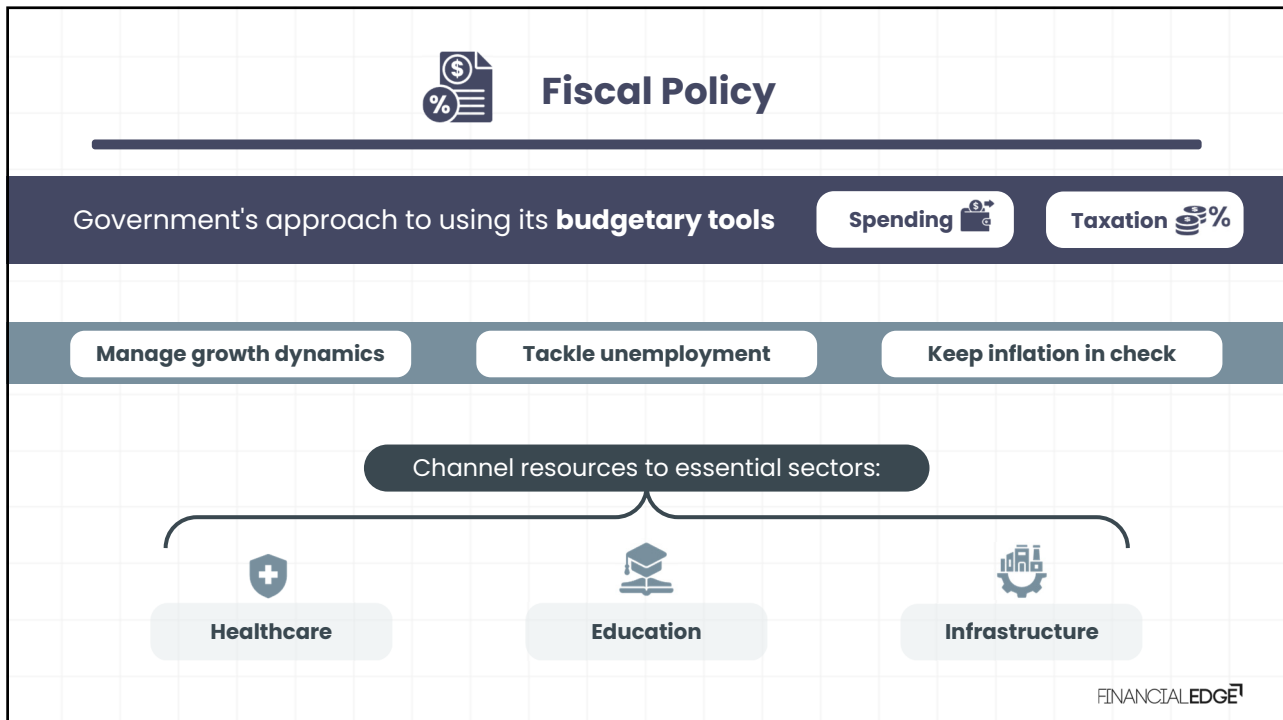
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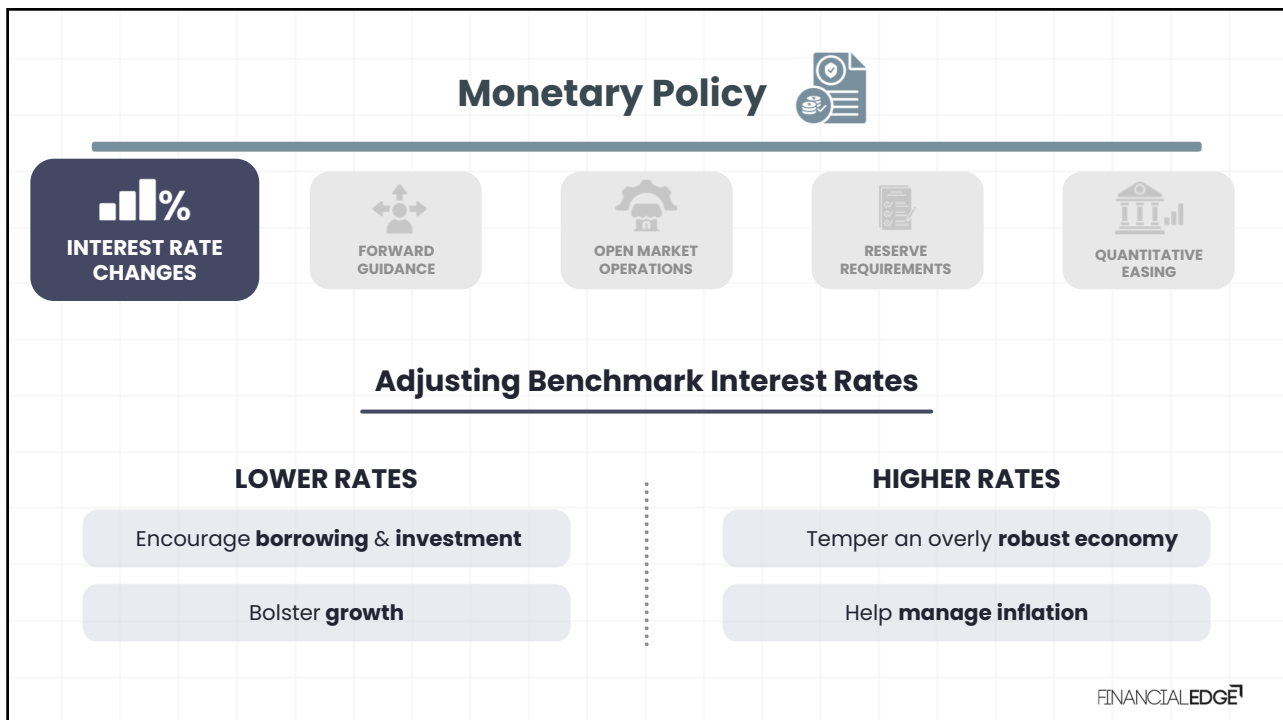
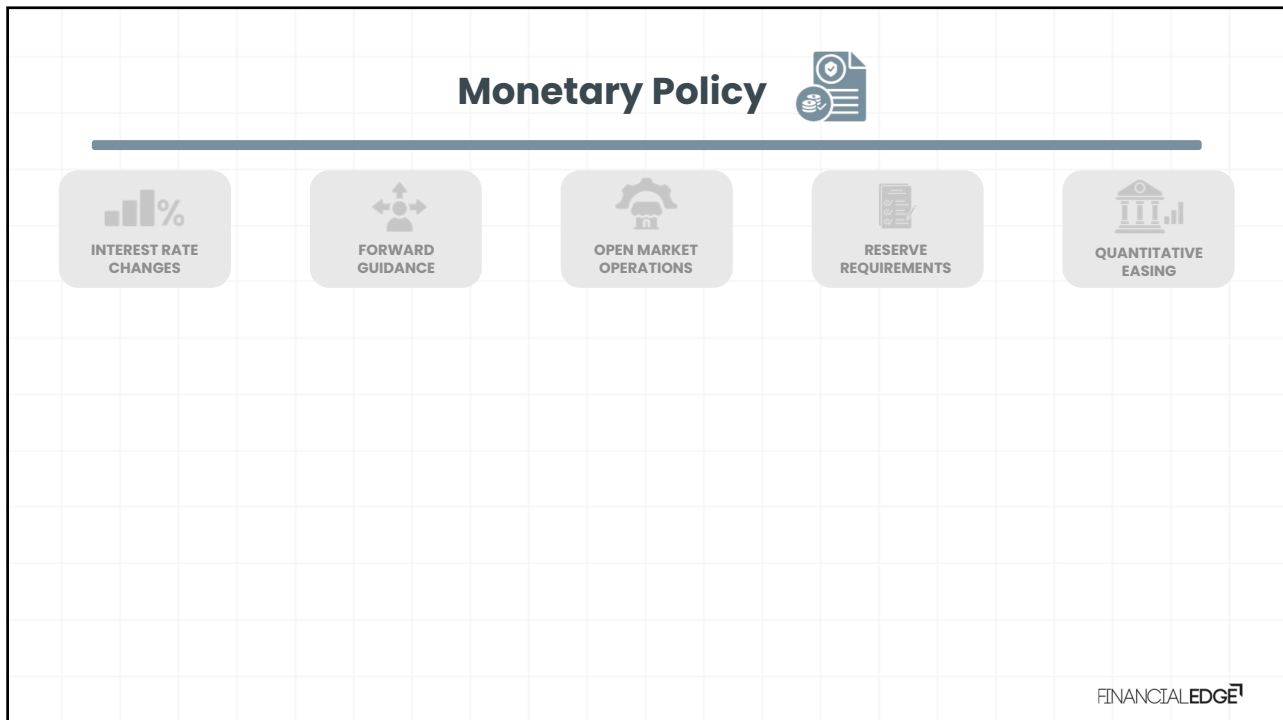
### Contractionary Fiscal Policy

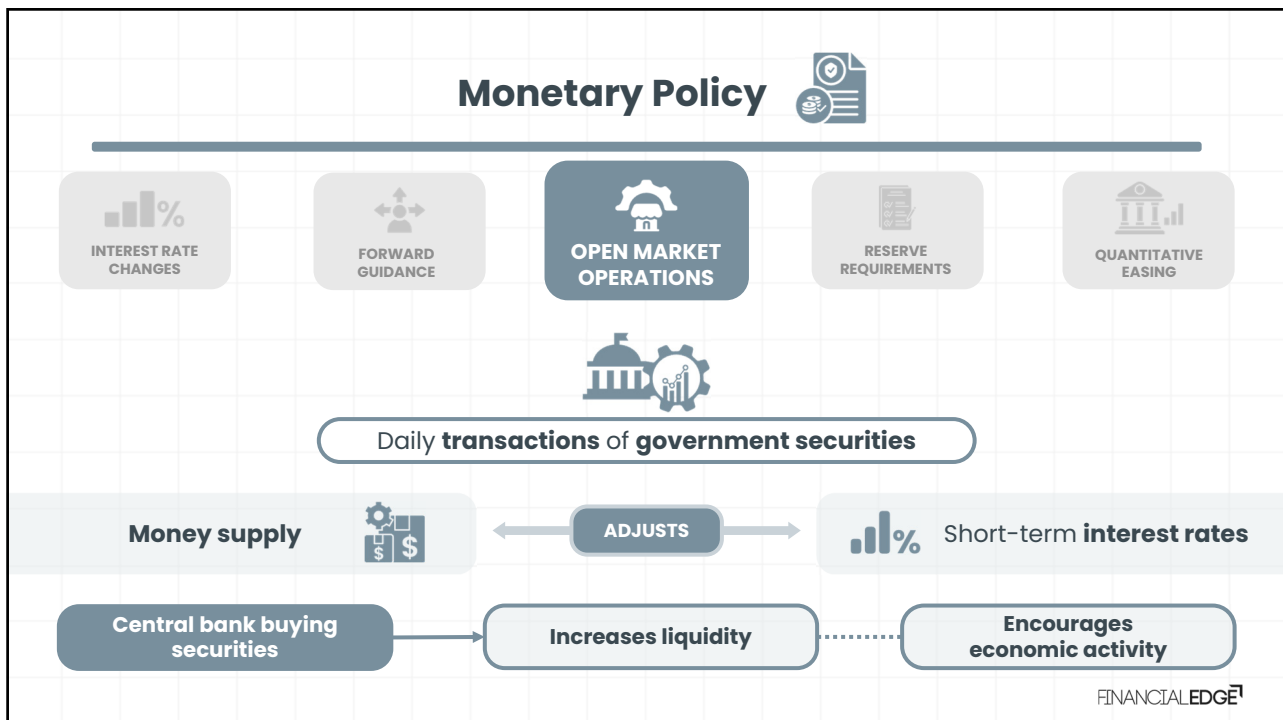
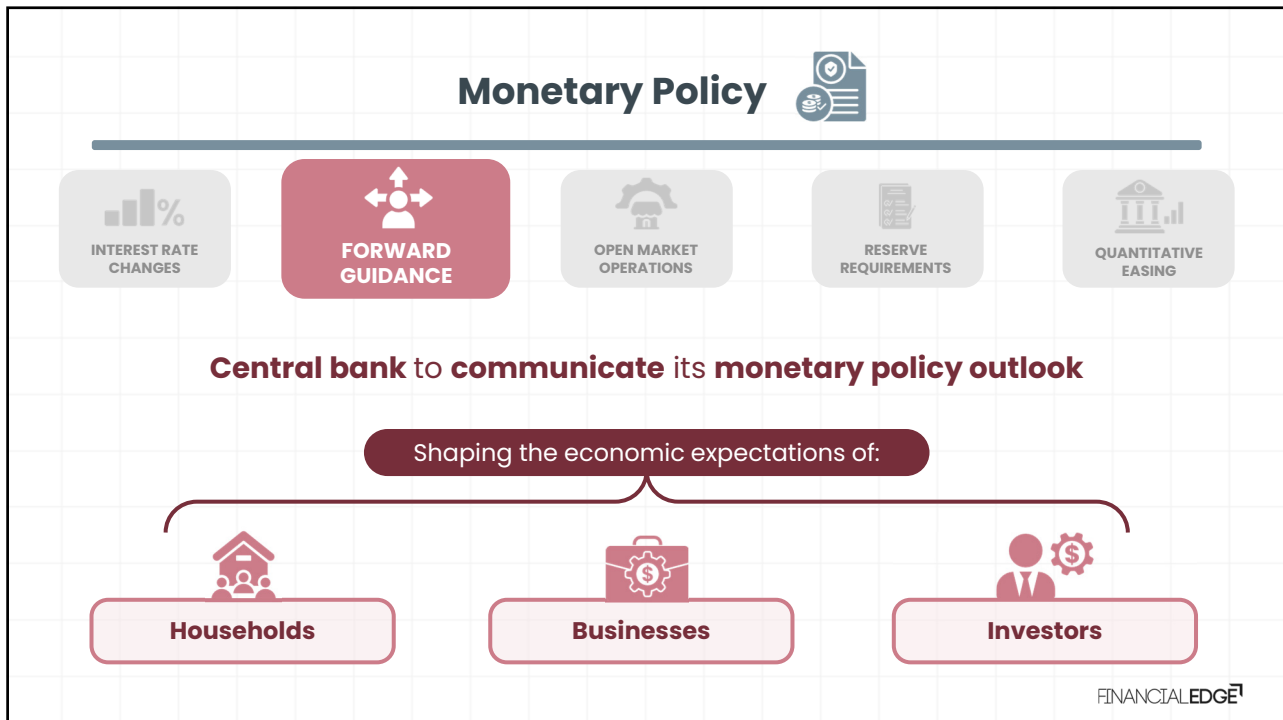
**Economy** is in an **exuberant state** and **policymakers** aim to **temper it**

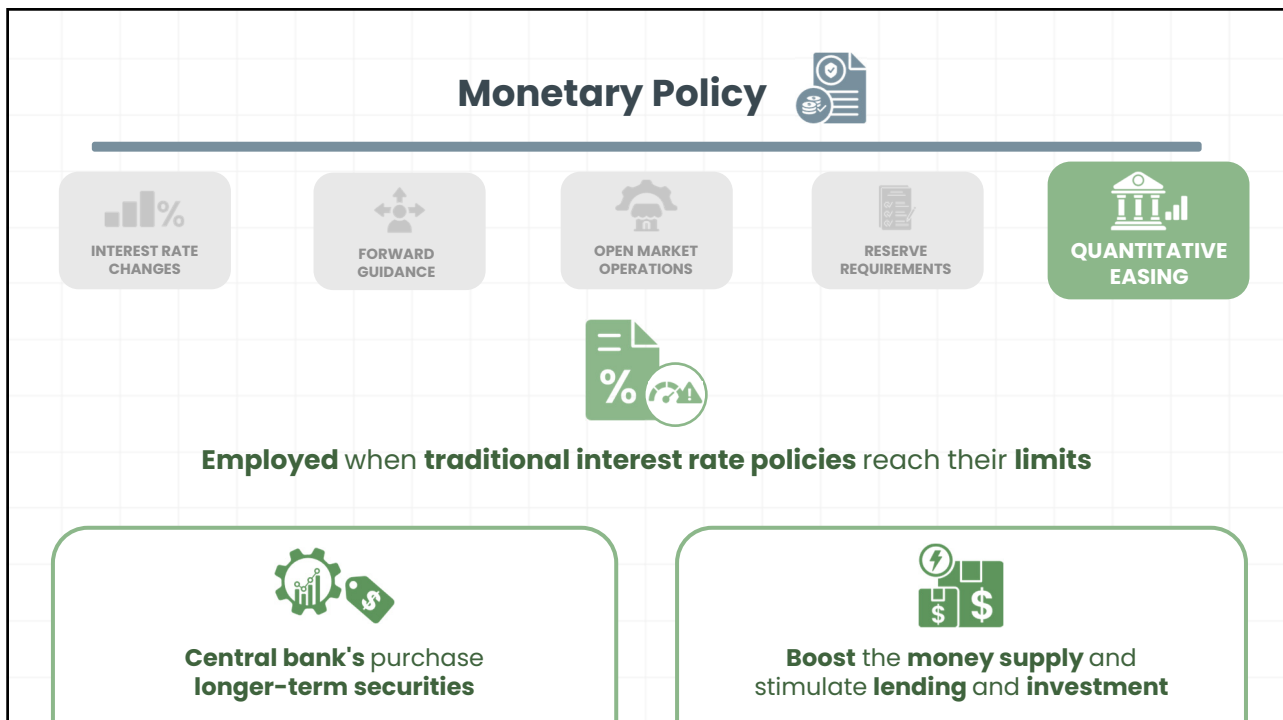
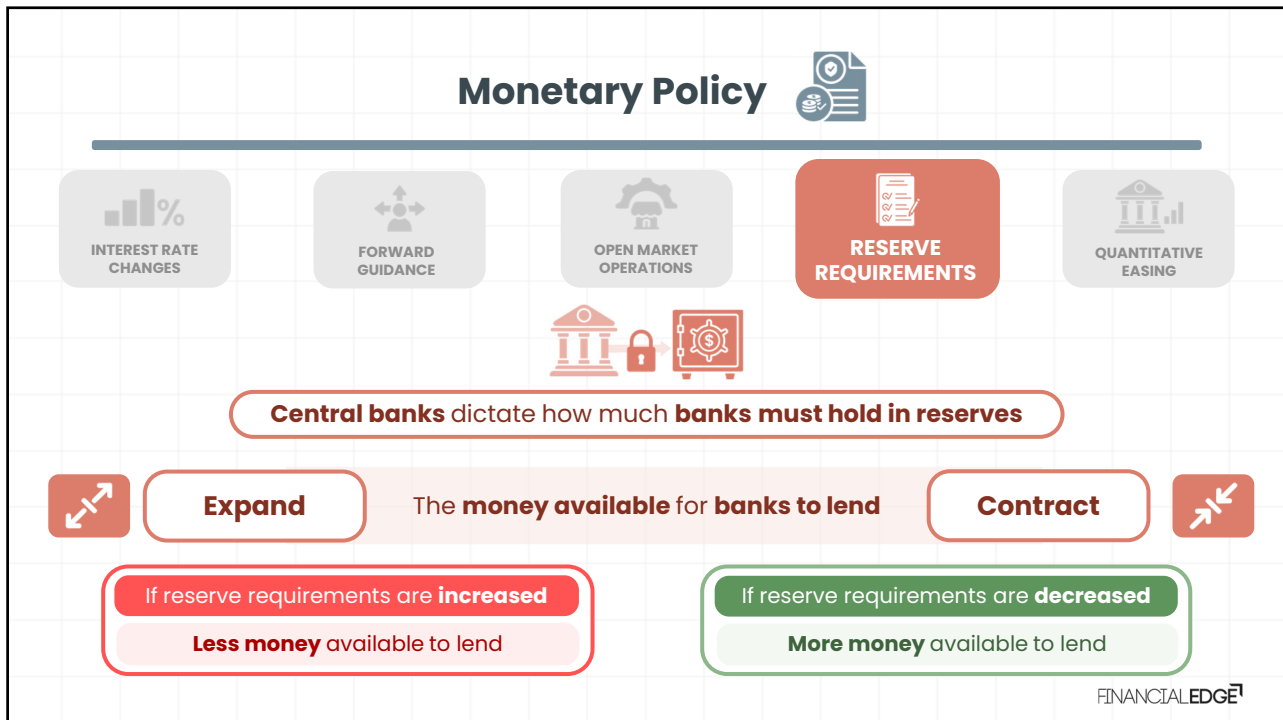


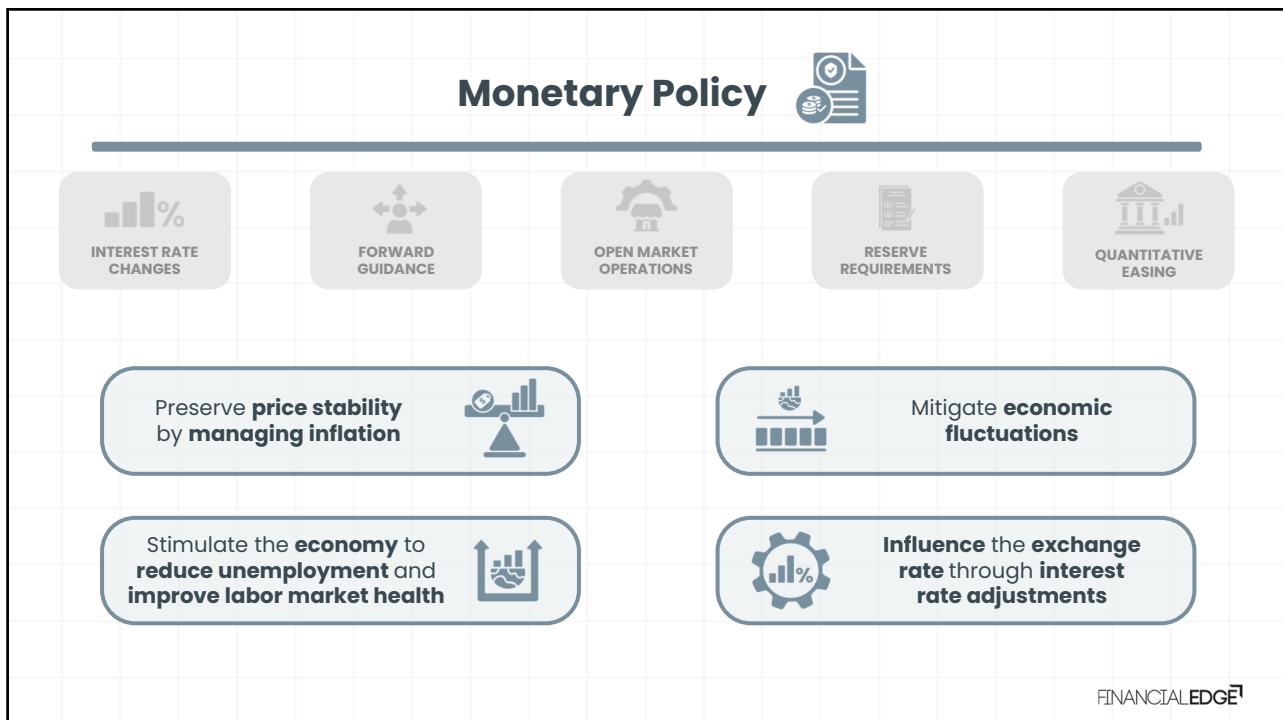
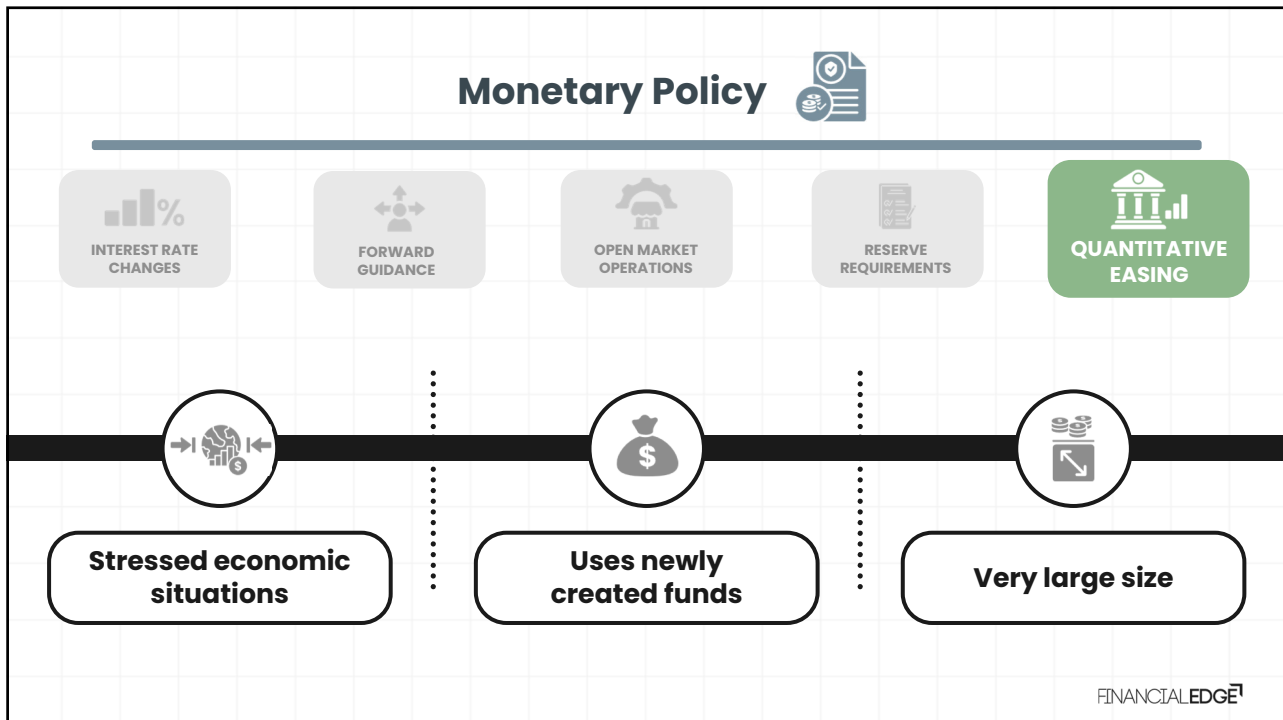
FINANCIALEDGE<sup>7</sup>





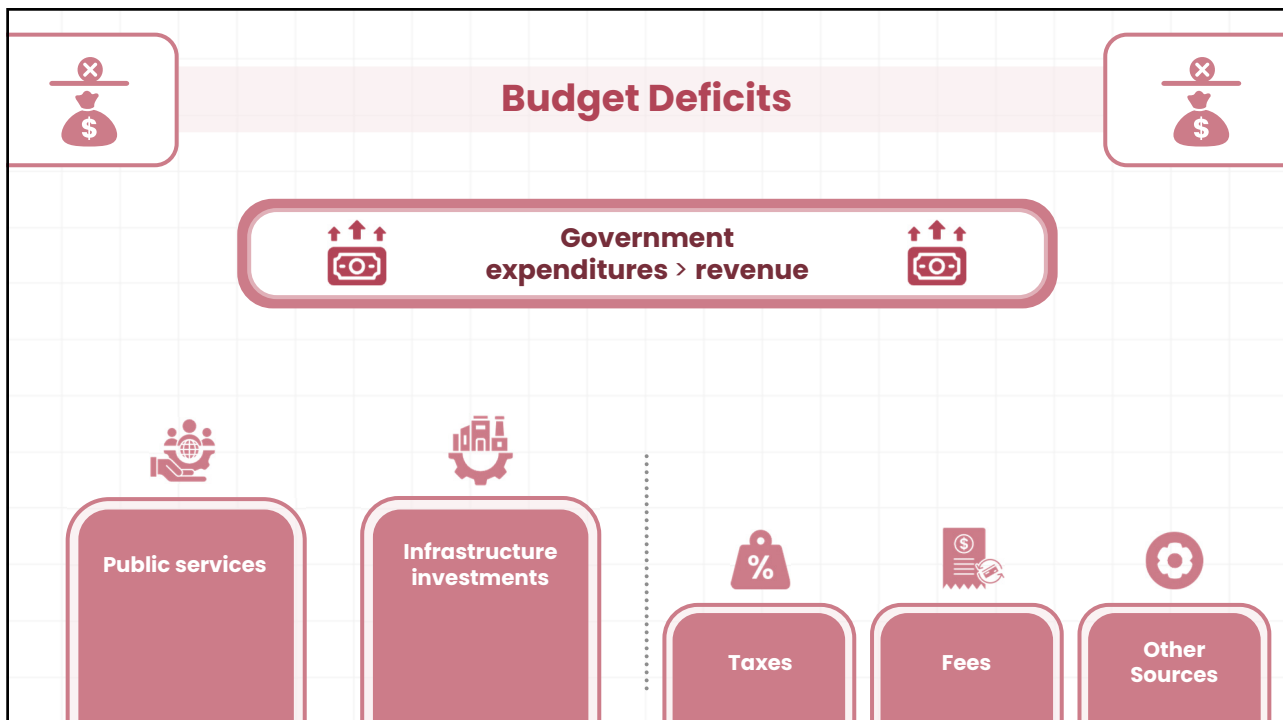


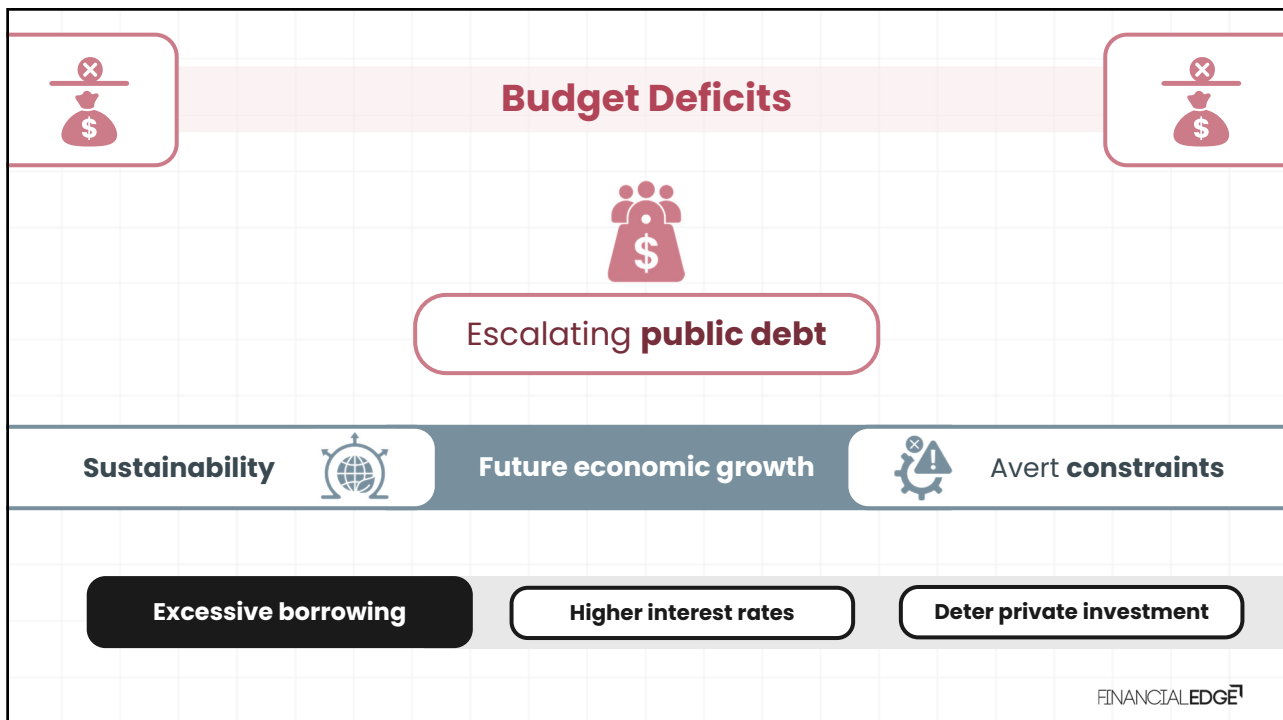
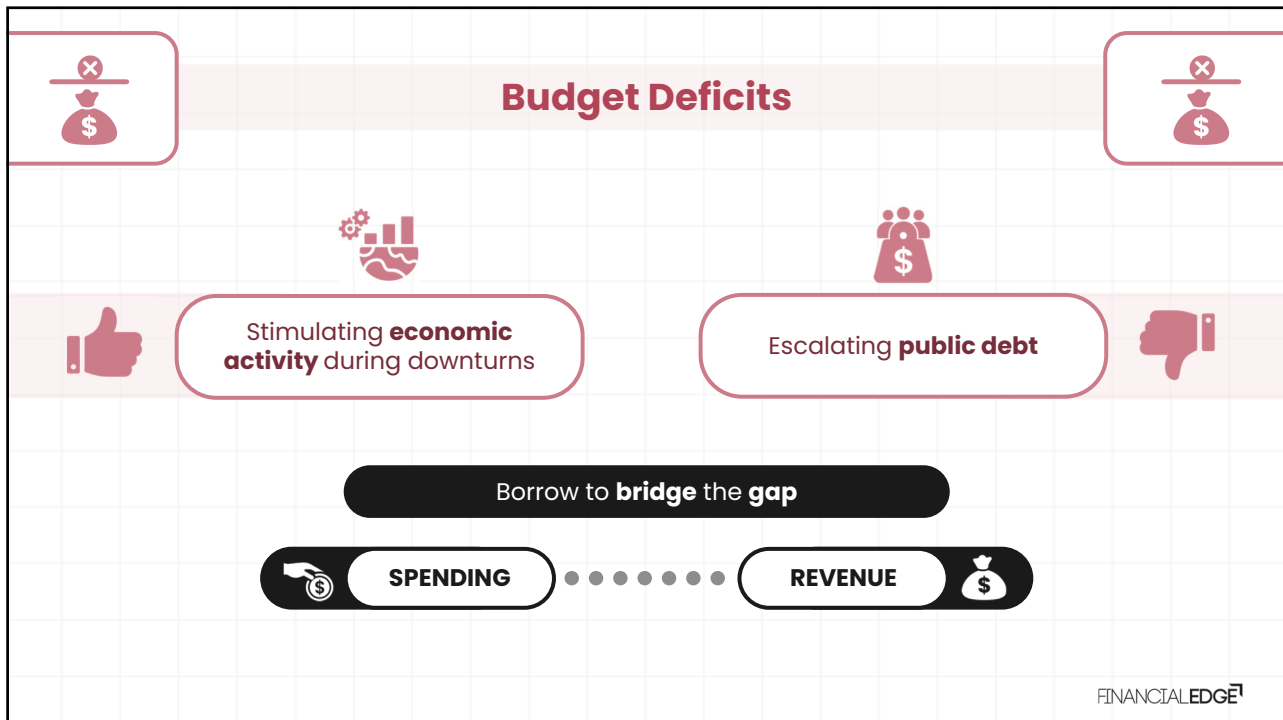


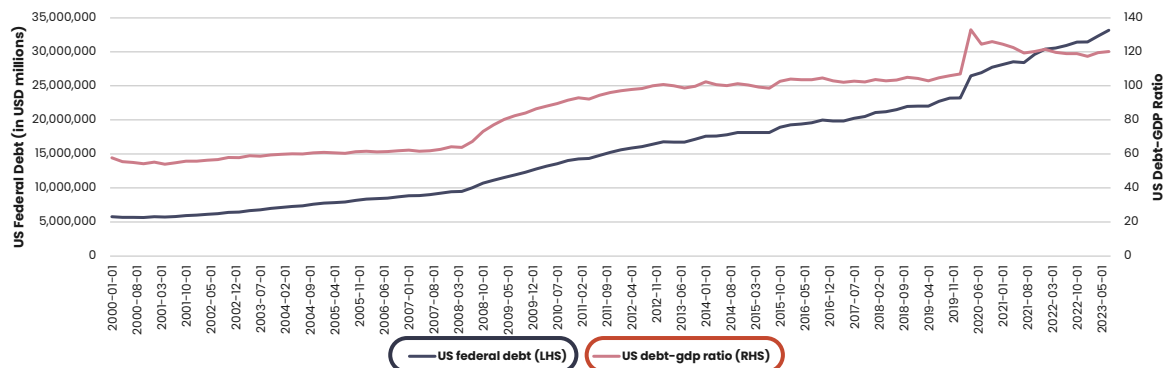




# Budget Deficits and Government Debt

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**Source:** U.S. Department of the Treasury, Federal Debt, Total Public Debt, Quarterly [GFDEBTN] and U.S. Office of Management and Federal Reserve Bank of St. Louis, Federal Debt as Percent of Gross Domestic Product [GFDEGDQ188S], retrieved from FRED, Federal Reserve Bank of St. Louis



## Debt to GDP ratio

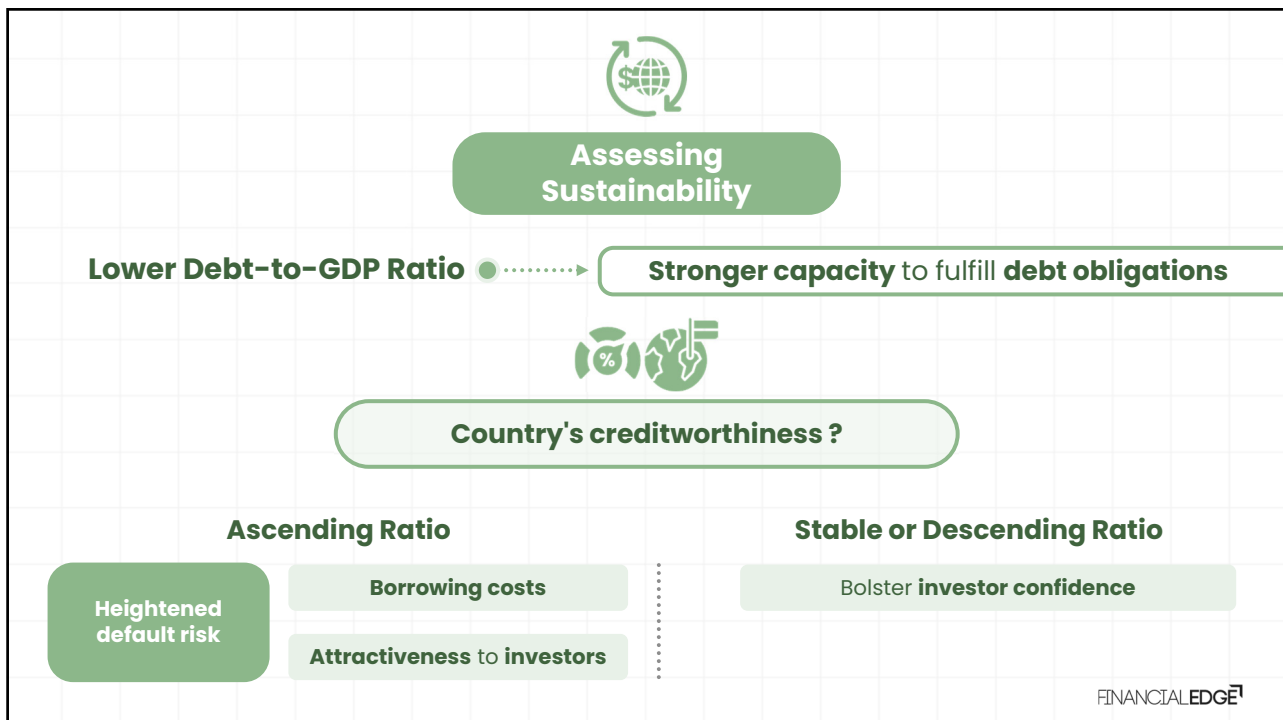
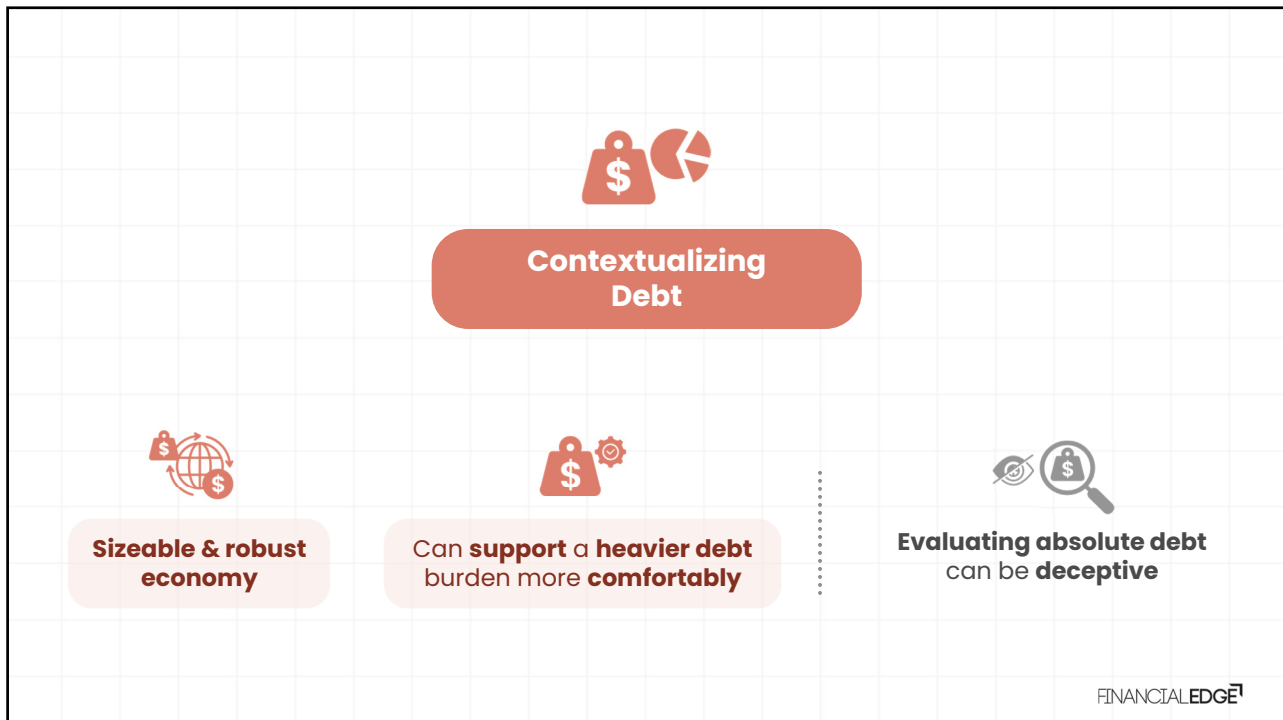


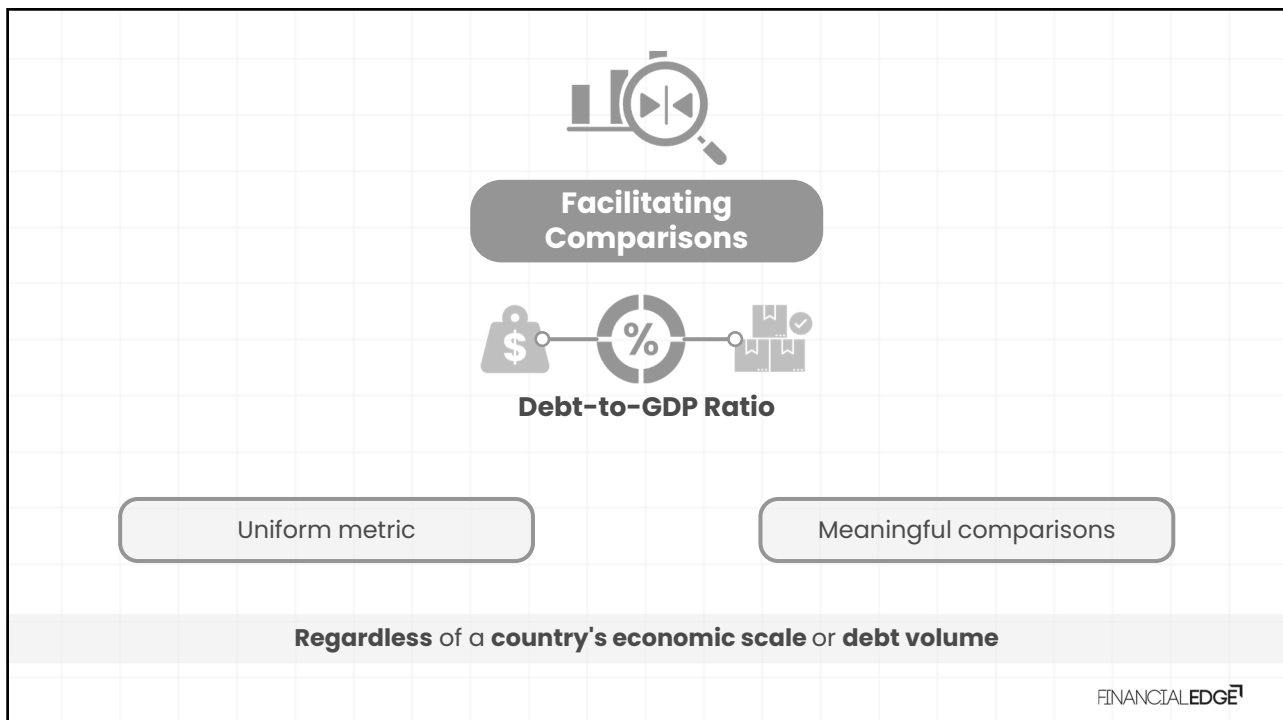
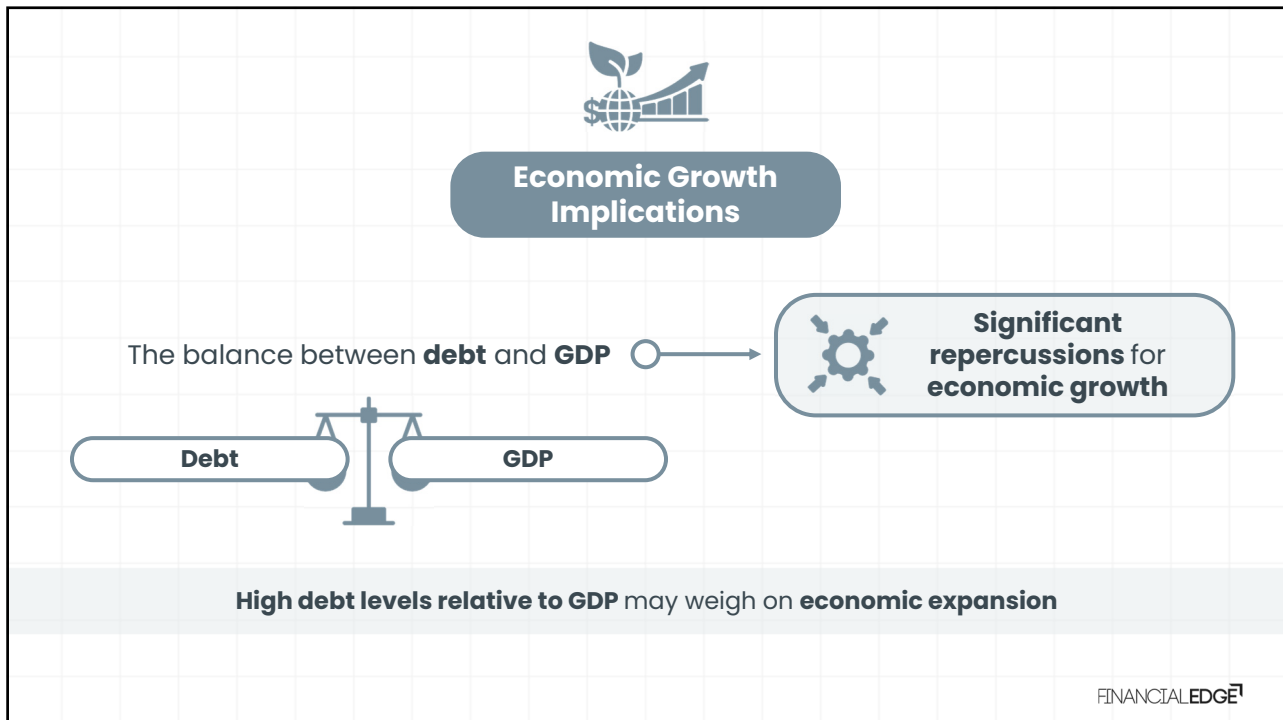
Contextualizing  
Debt

Assessing  
Sustainability

Economic Growth  
Implications

Facilitating  
Comparisons





# Central Bank Monetary Policy

FINANCIALEDGE<sup>7</sup>

## The Pursuit of Price Stability

Inflation is kept to a **minimal** and **steady rate**

**Stable prices**



**Thriving economy**

Wards off the **economic uncertainties** that can **disrupt**:



Savings

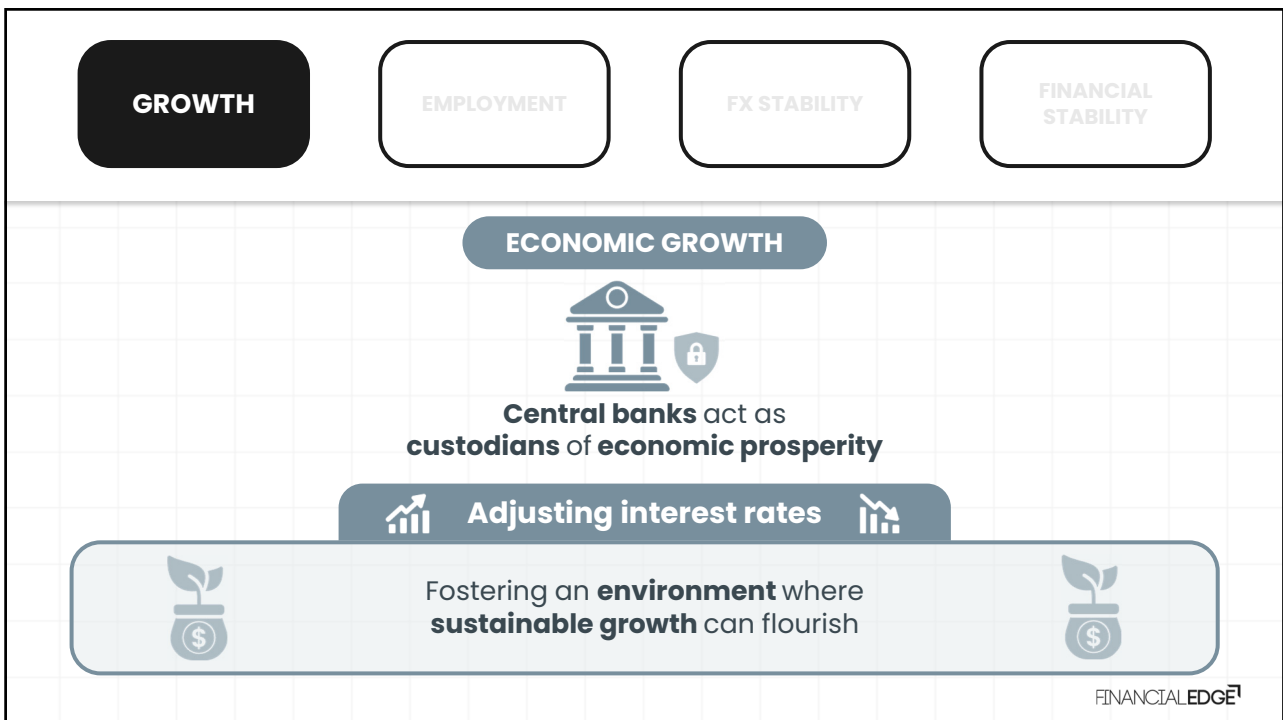
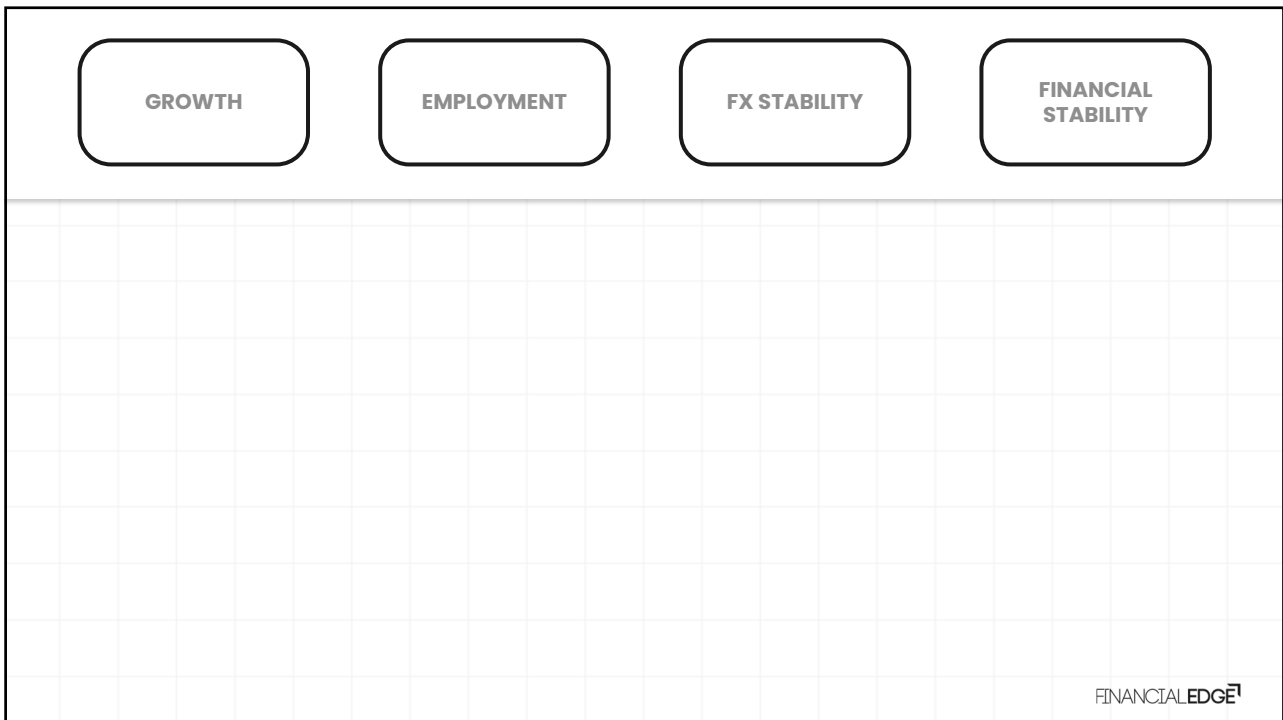


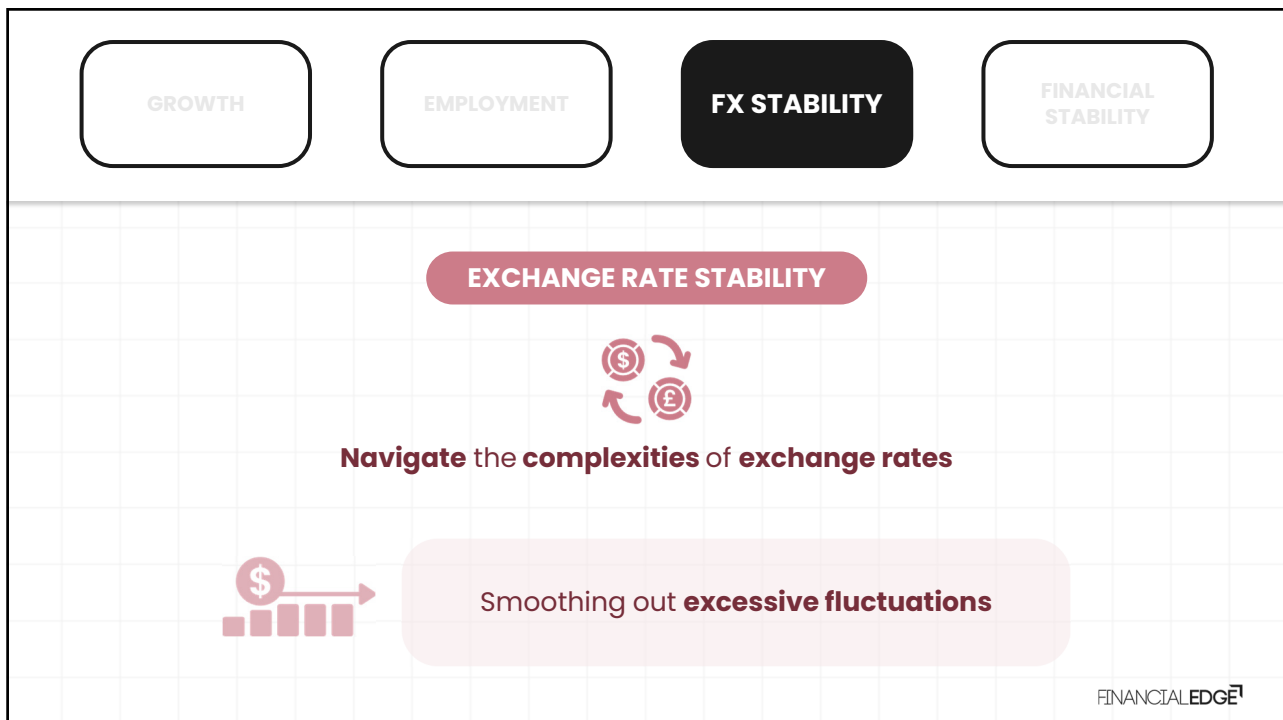
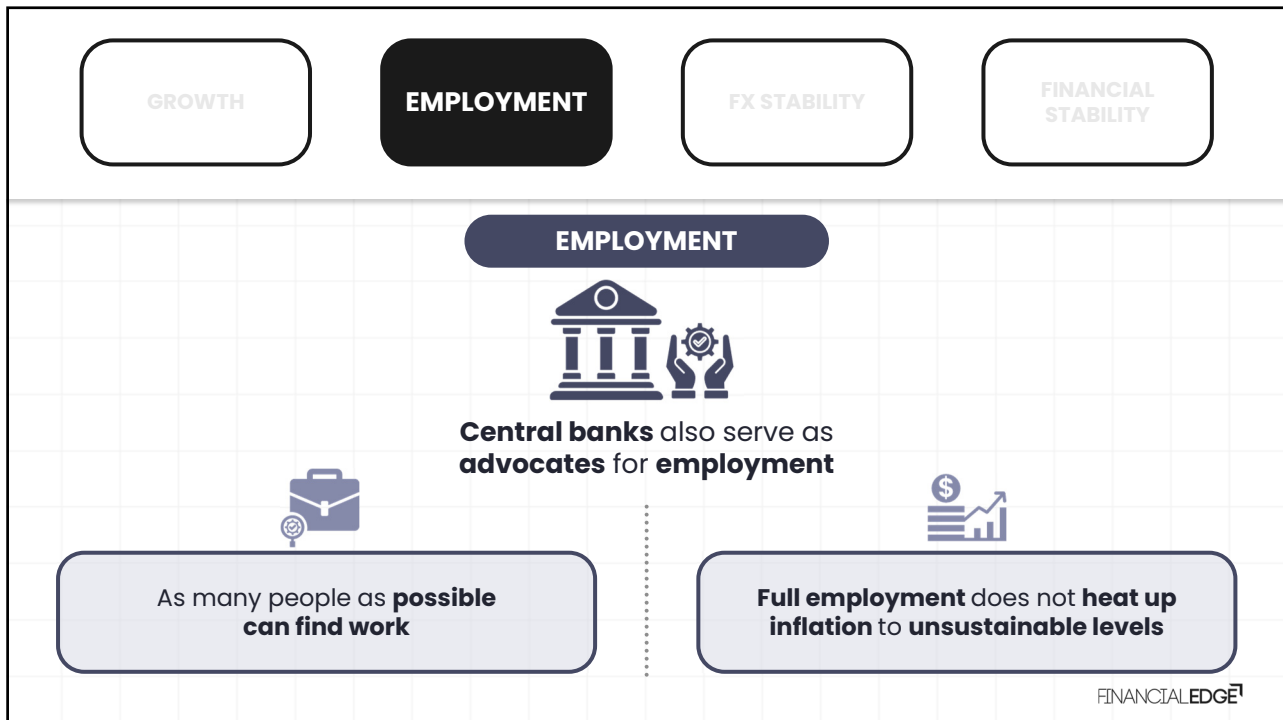
Investments



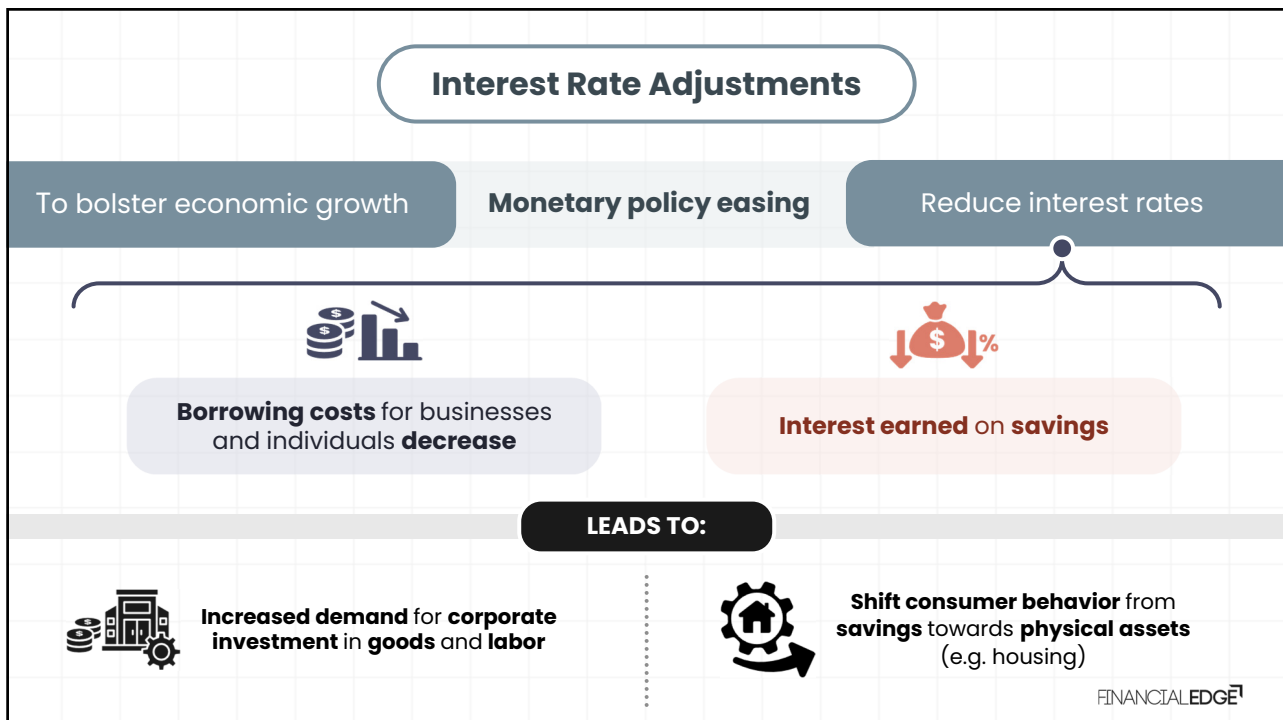
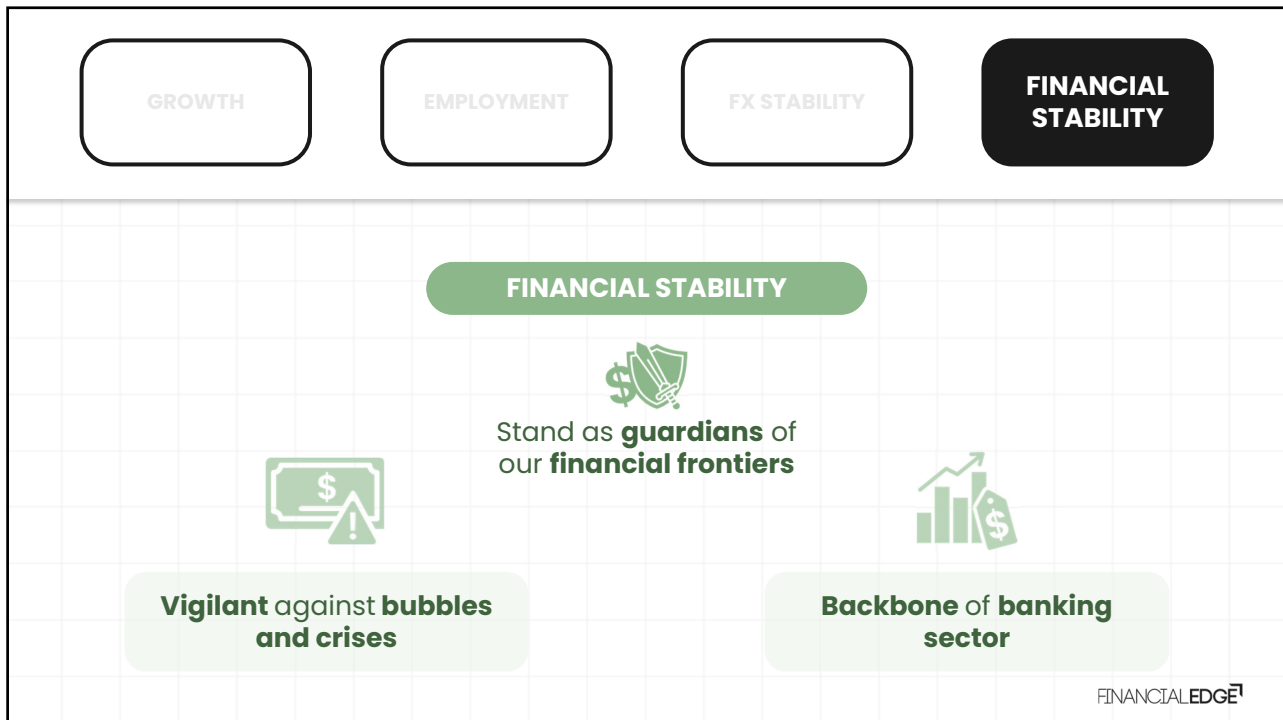
Spending behaviors

FINANCIALEDGE<sup>7</sup>









To prevent an **overheating economy**



A **central bank** will **tighten its policy**, meaning it will **increase interest rates**

How do **central banks** influence **market interest rates**?

1 Central bank's policy interest rates



2 Short-term money markets rates

**ESTR**

Euro Short-Term  
Rate

**EUROZONE**

**SOFR**

Secured Overnight  
Financing Rate

**U.S.**

**SONIA**

Sterling Overnight  
Index Average

**UK**

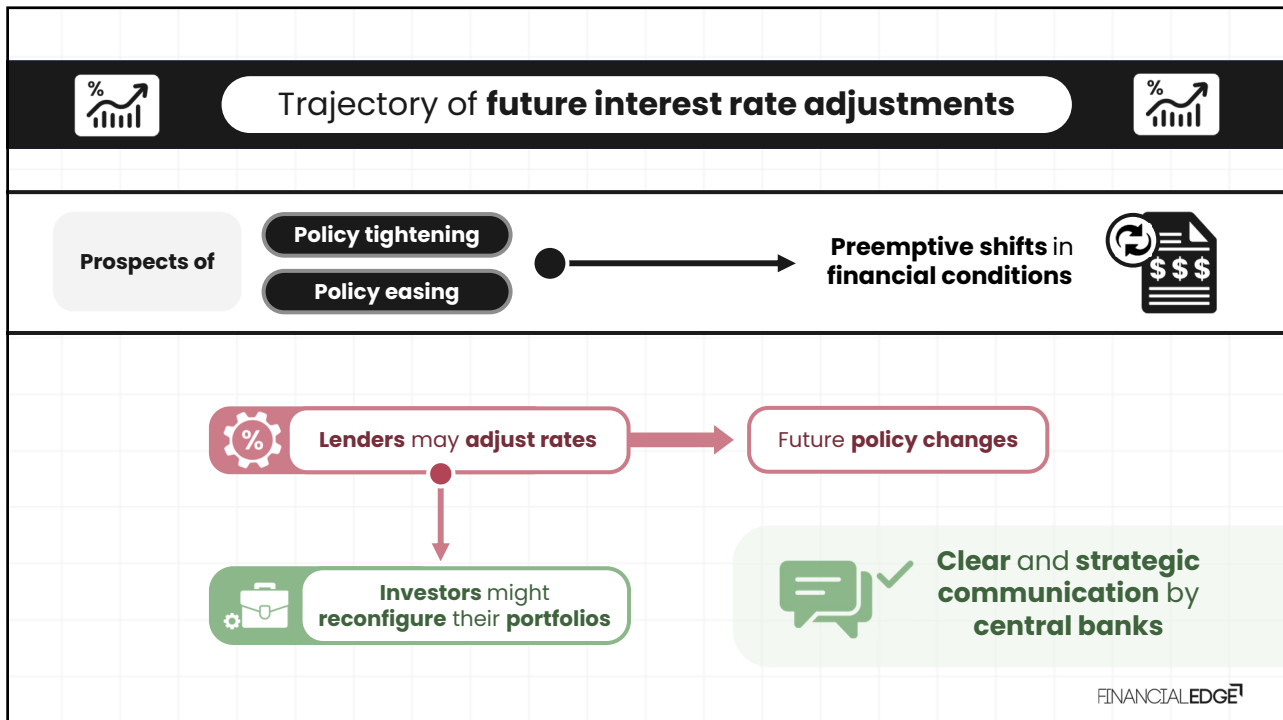
**TONAR**

Tokyo Overnight  
Average Rate

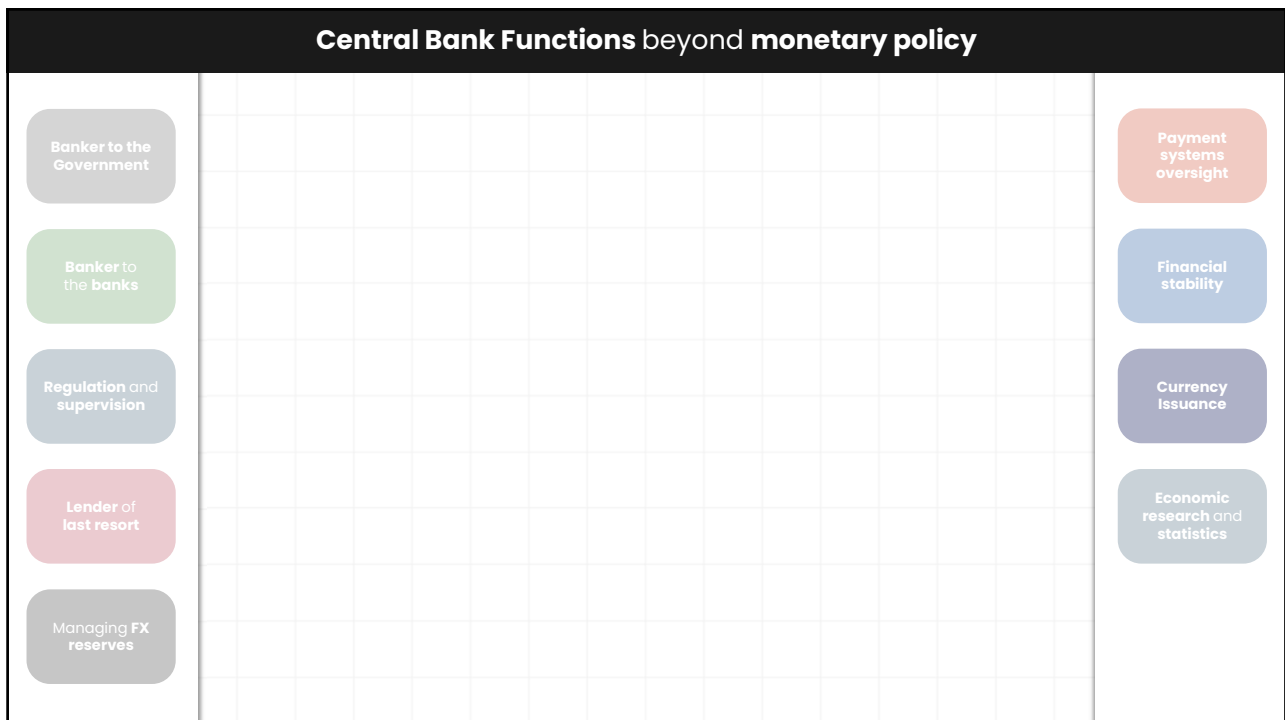
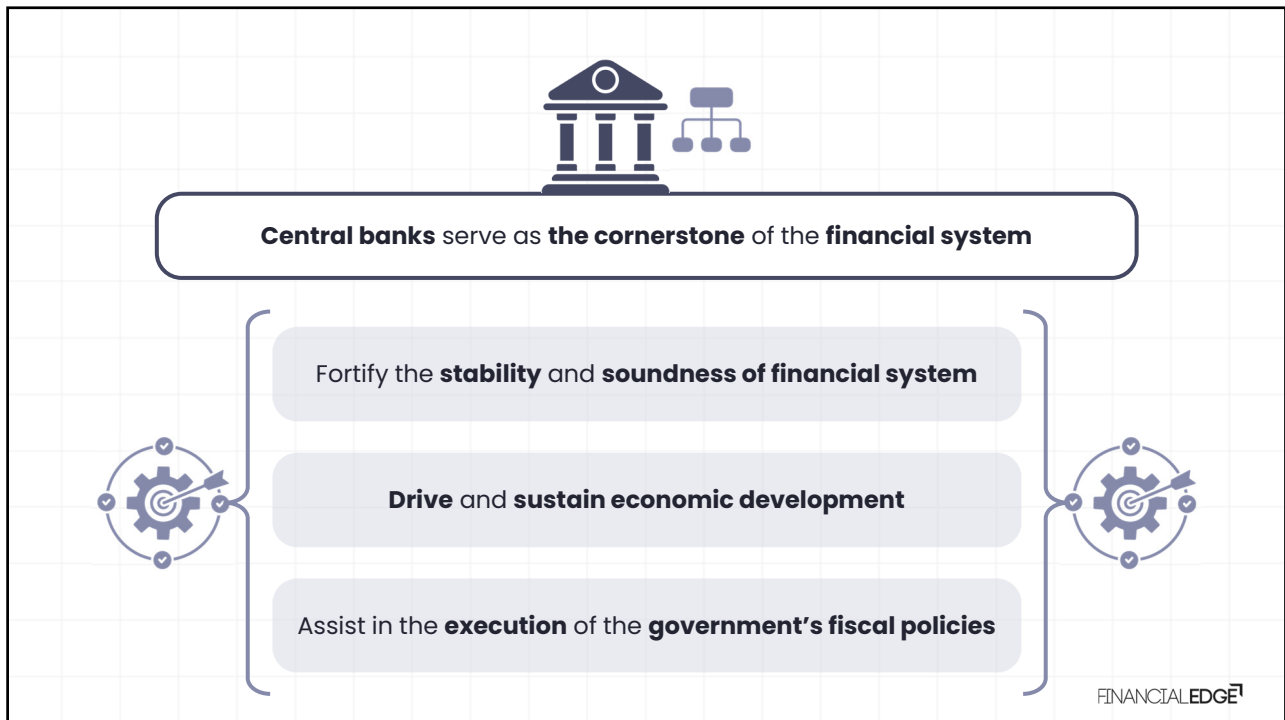
**JAPAN**

3 Bank's lending and deposit rates

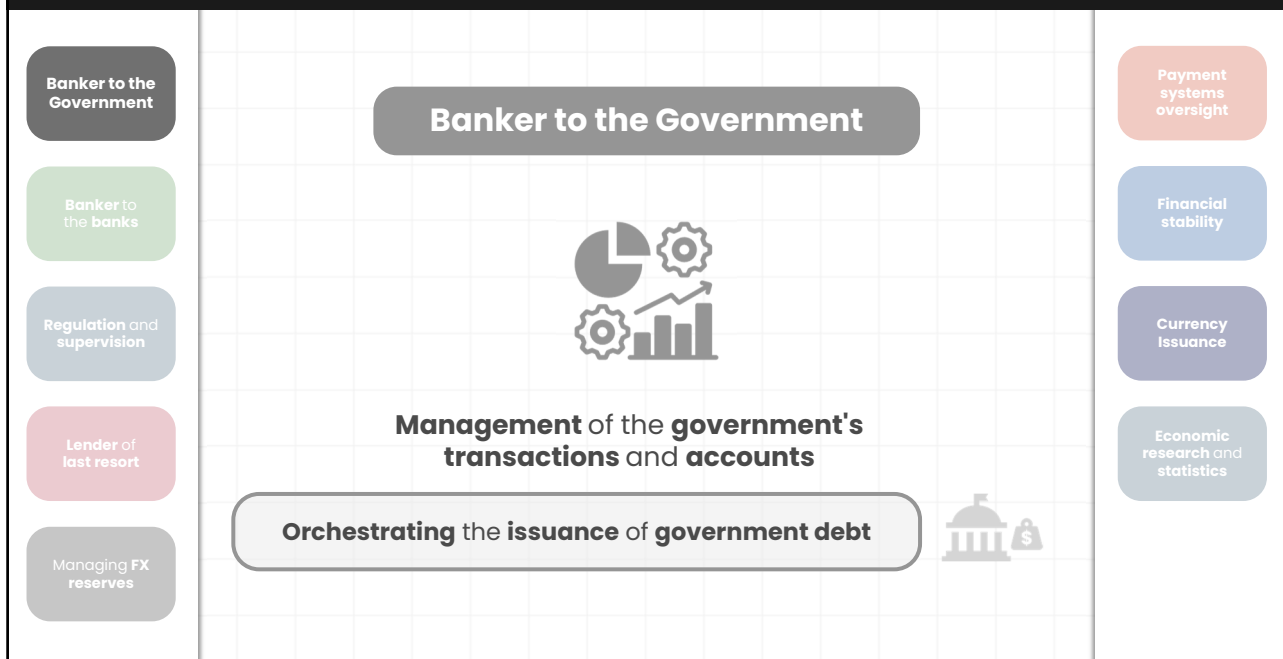




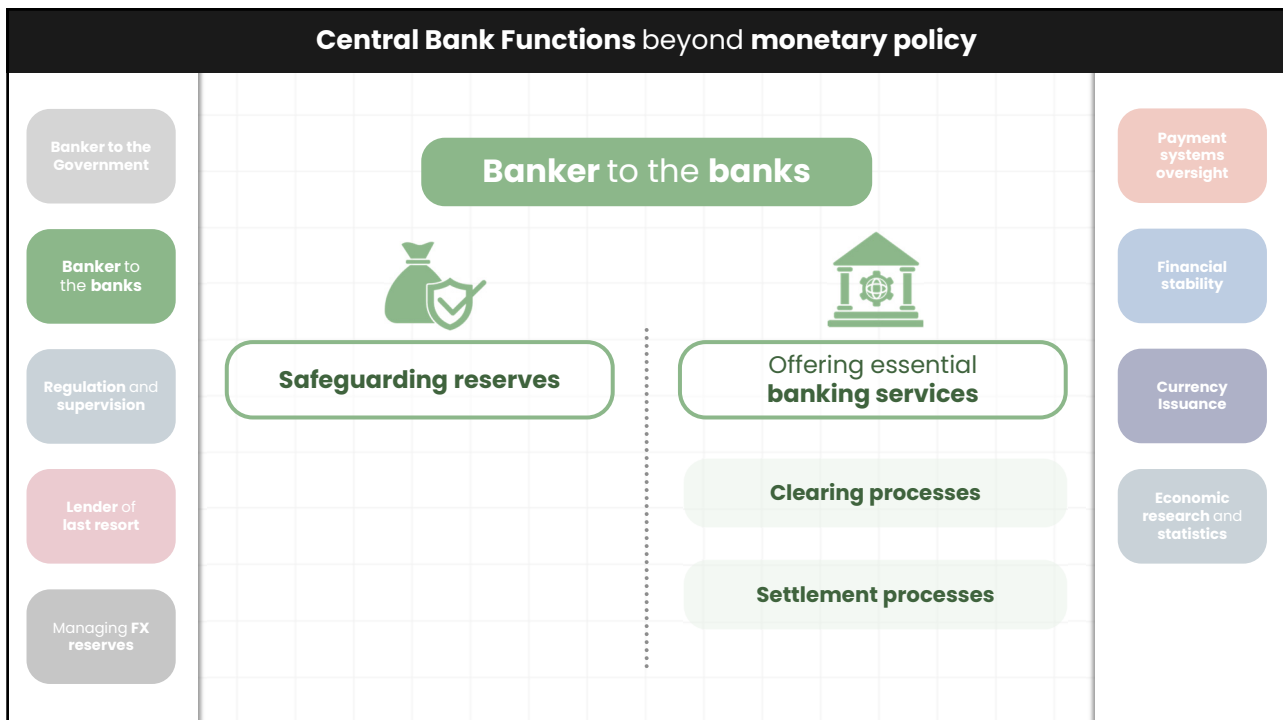
## Additional Functions of Central Banks

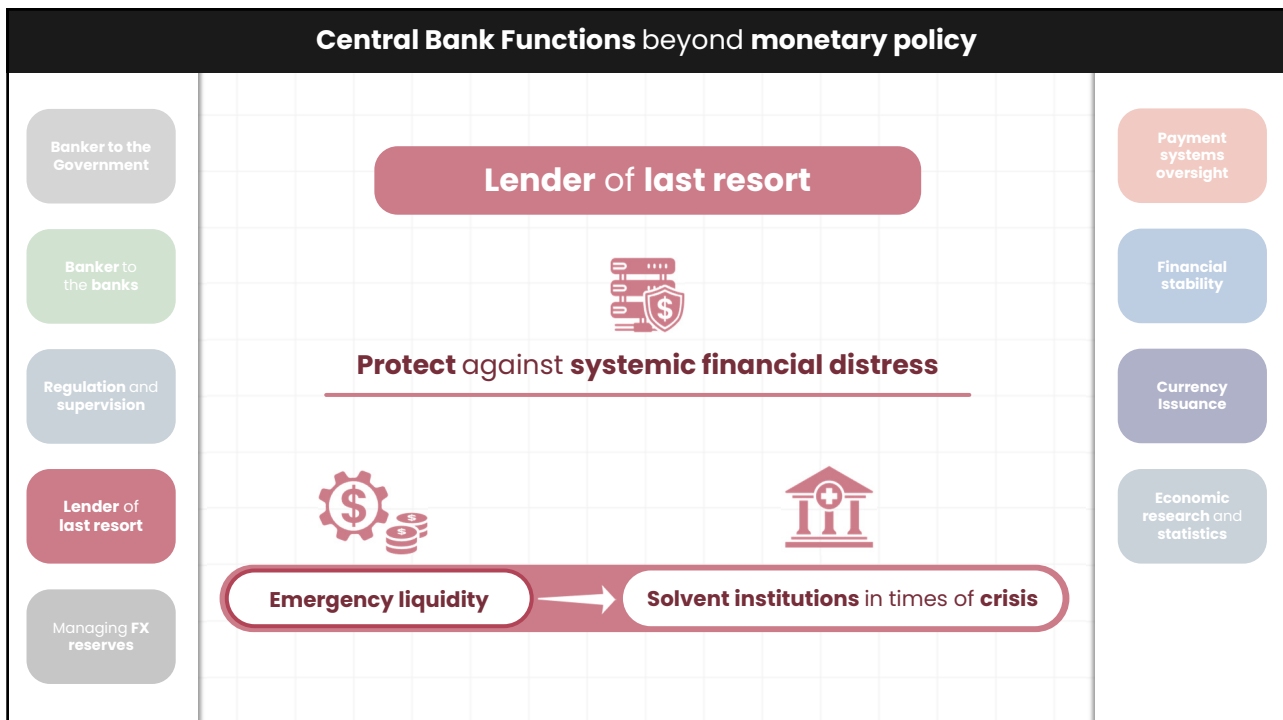
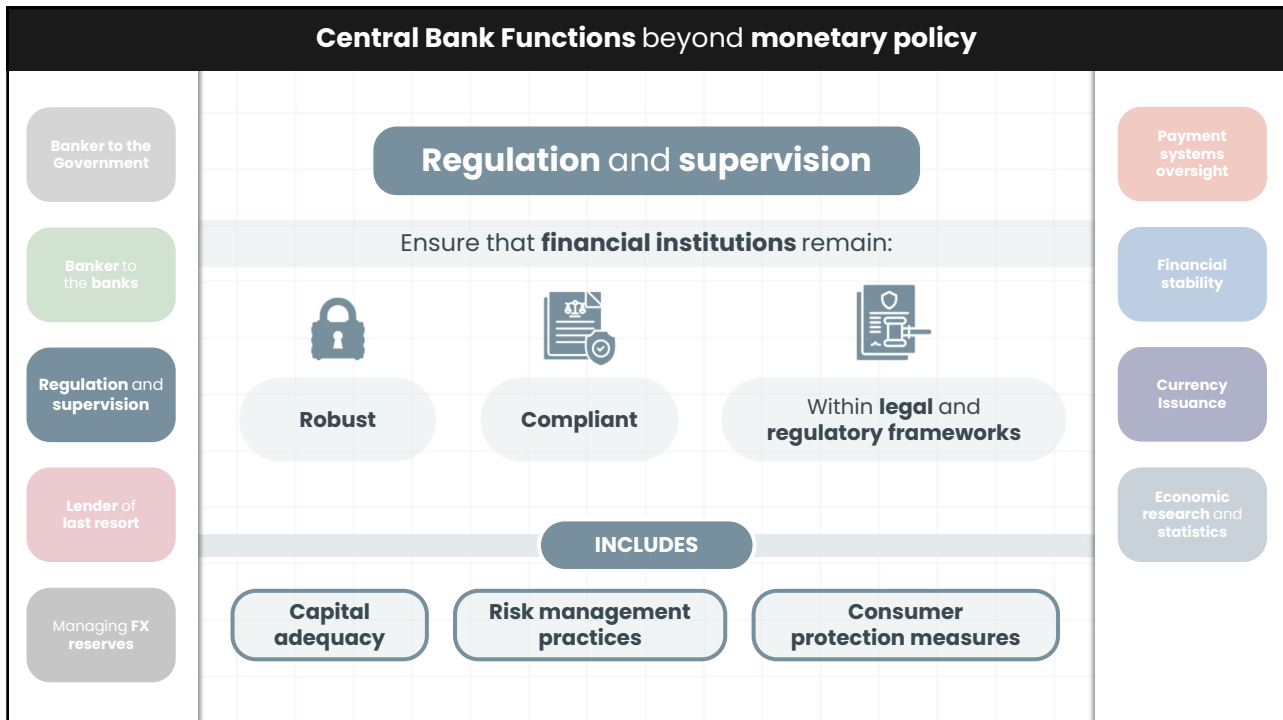


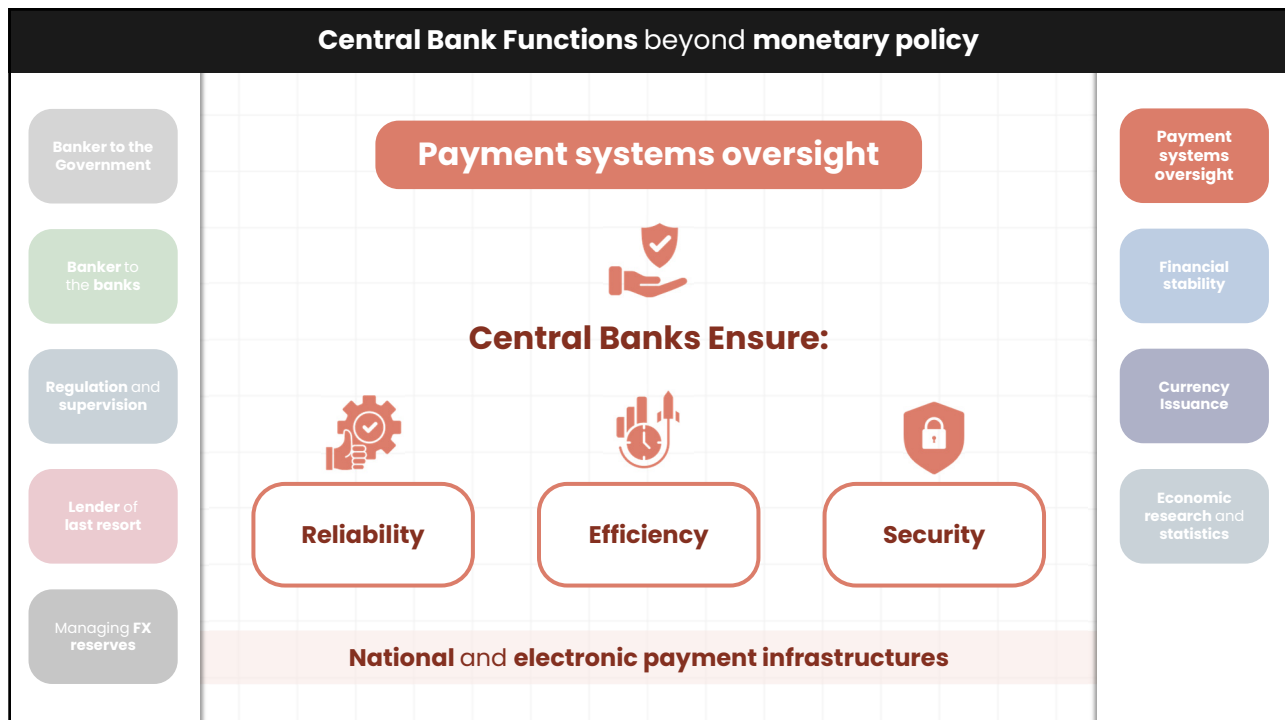
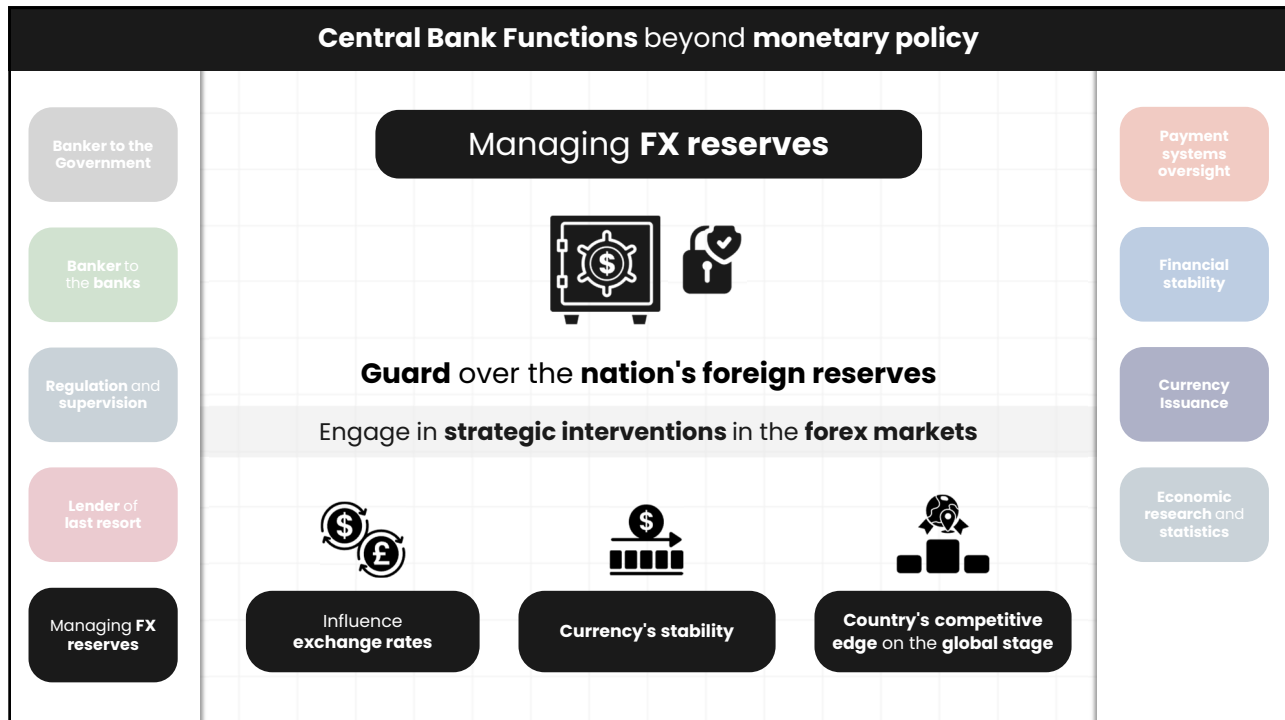
## Central Bank Functions beyond monetary policy

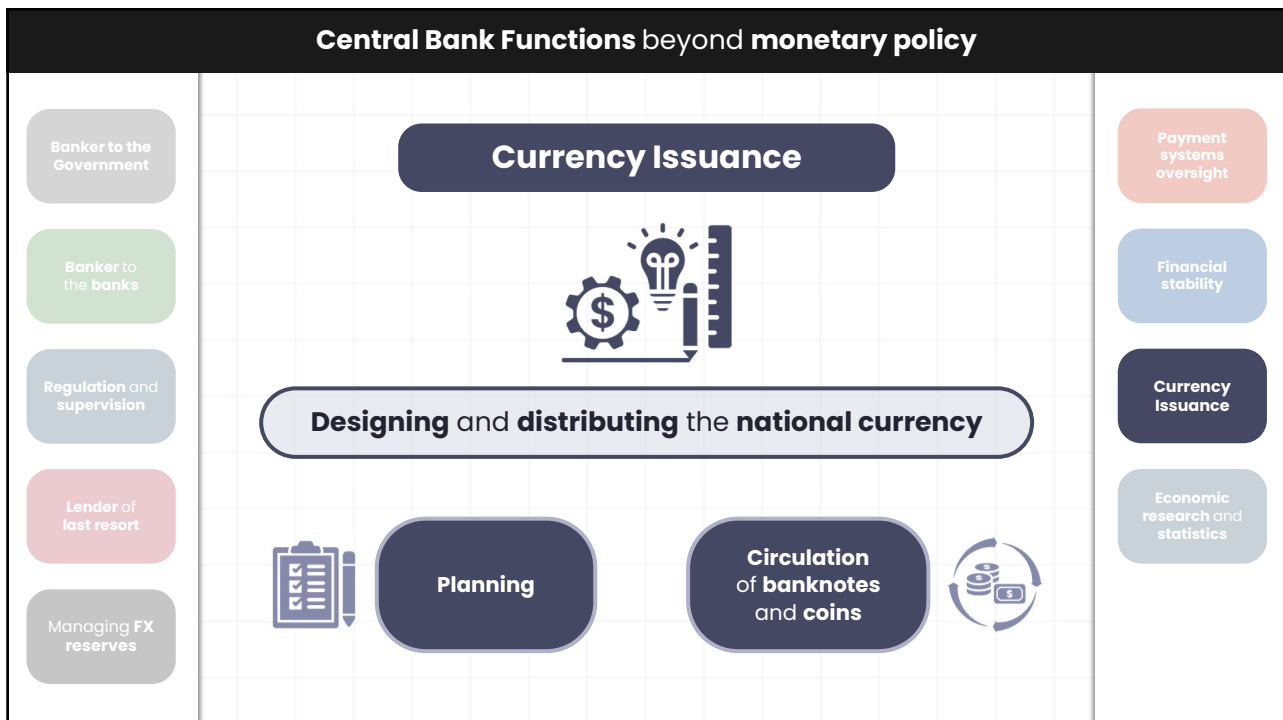
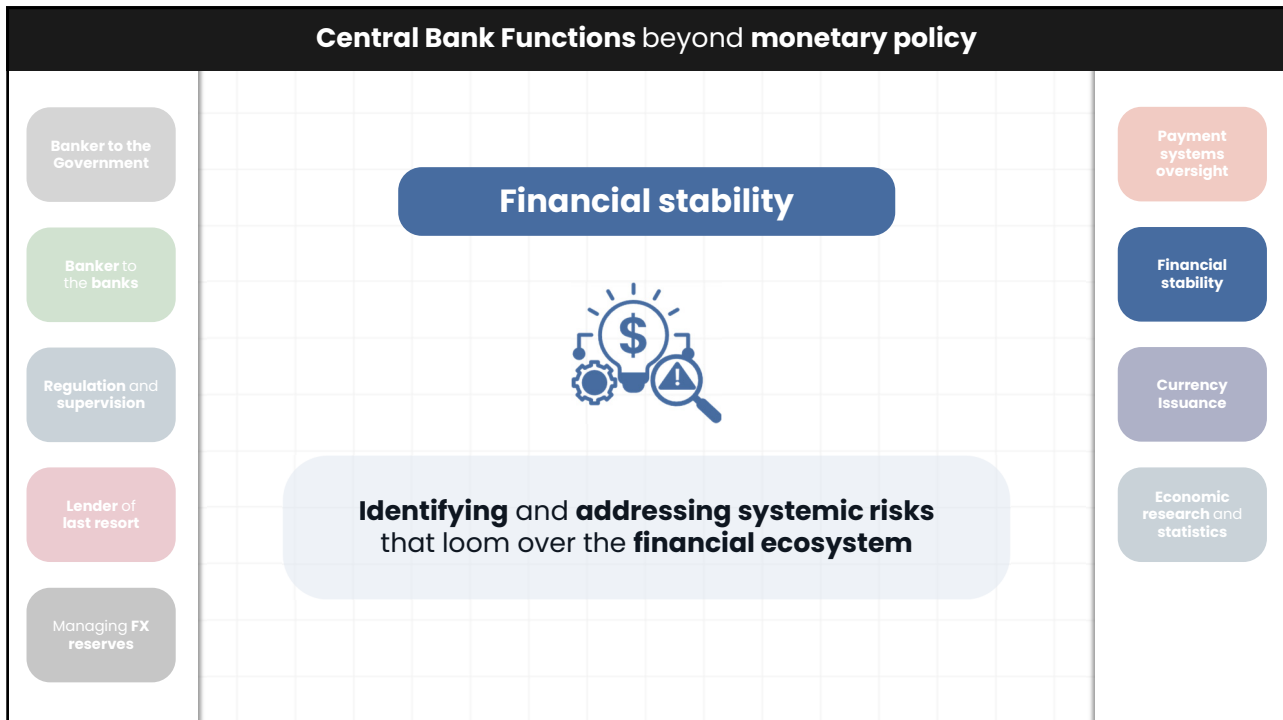


## Central Bank Functions beyond monetary policy

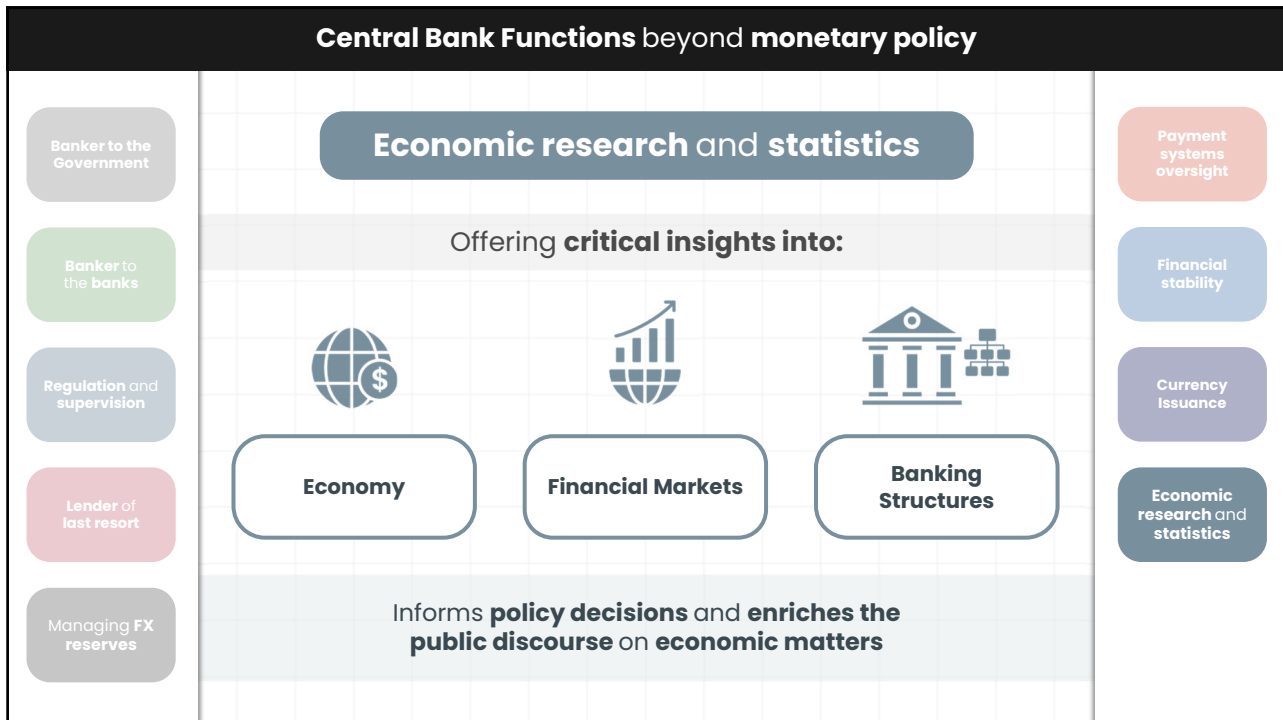




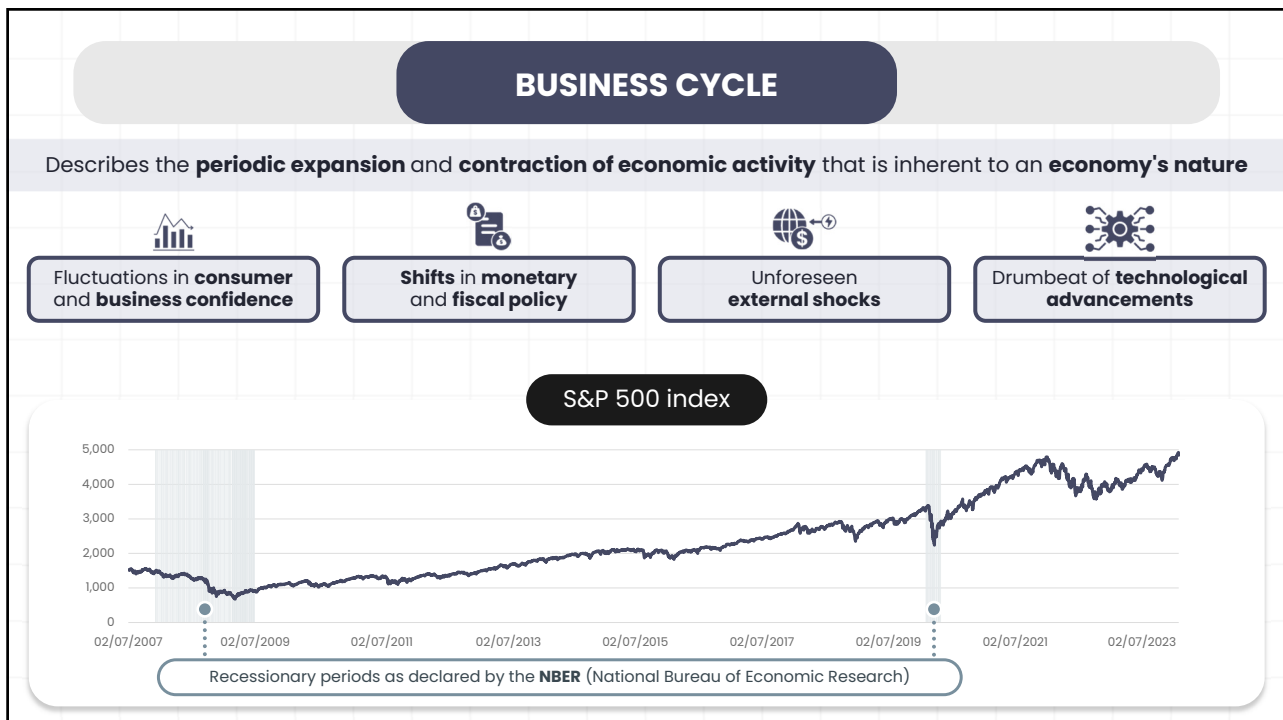
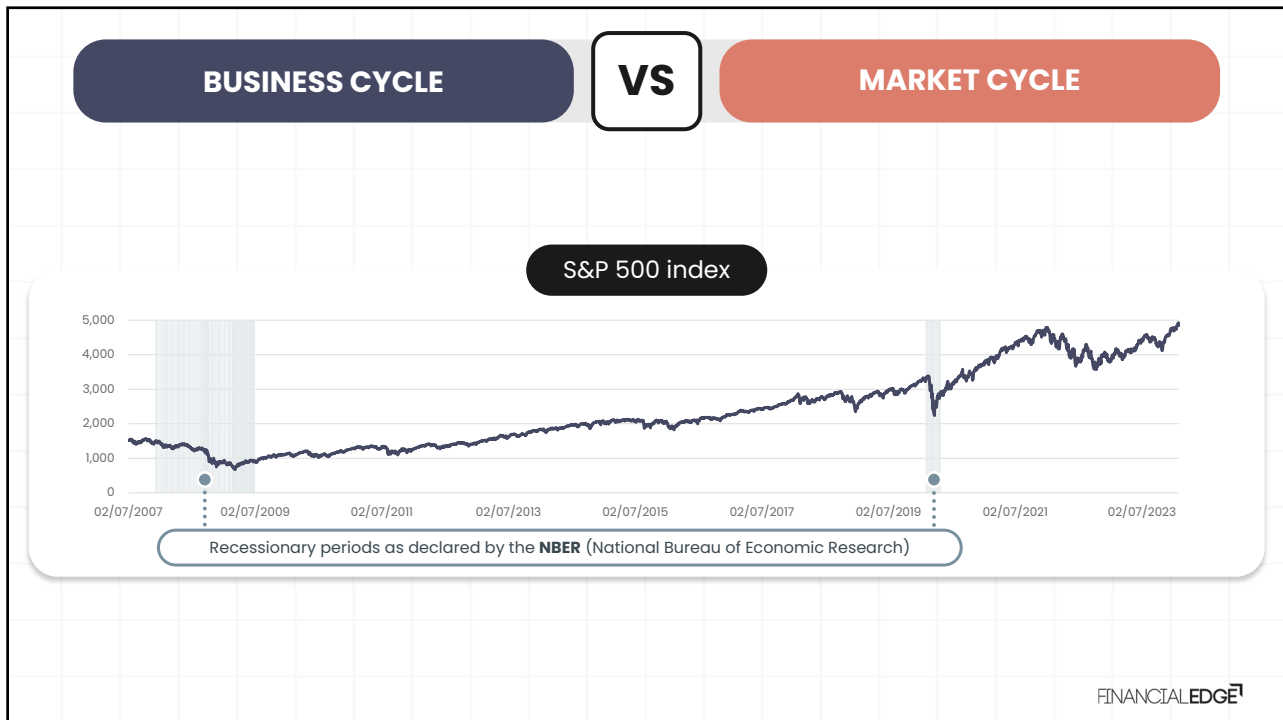








## Business Cycle vs. Market Cycle



## MARKET CYCLE

Refers to the **fluctuations** in the **prices** of **financial market assets**



**Stocks**

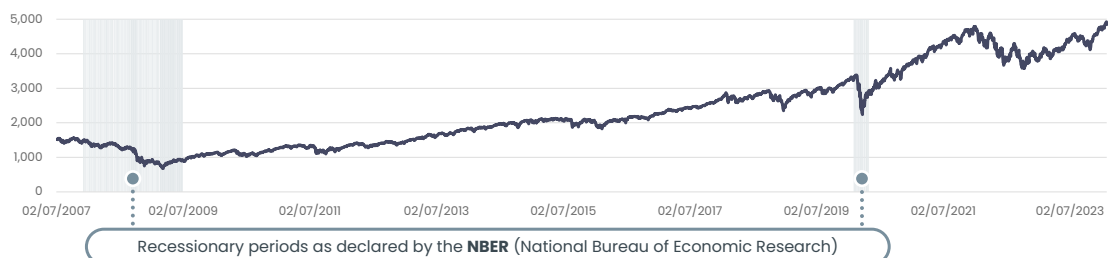


**Bonds**



**Commodities**

**S&P 500 index**



## MARKET CYCLE

**Benchmarks** are subject to the **ebb and flow of several variables**:



**Economic climate**



**Corporate earnings reports**

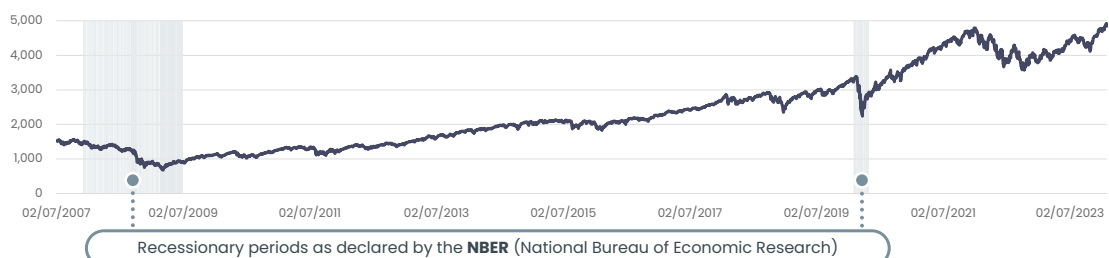


**Interest rate movements**



**The broad spectrum of investor sentiment**

**S&P 500 index**



BUSINESS CYCLE

VS

MARKET CYCLE

**Business and market cycle movements are not always in sync**

**Equity markets** bottomed out and started to **rise** before the **end of the recession**



S&amp;P 500 index

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