Discussion - Countercyclical Monetary Policy

Discussion Topic:

Respond to the following in a minimum of 175 words: Be constructive and professional.

#1 Discuss how changes in the Federal Reserve’s monetary policy affect at least 1 of the 4 components of GDP (consumption, investment, government spending, net exports).
Have the Federal Reserve’s countercyclical monetary policies been effective in moderating business cycle swings? Justify your response.

Student Responses:
#2 DP
Hi, professor and class!

The video helped me to see the big picture of the Credit Crisis and all of the parties involved. I couldn't help but think of Gordon Gekko's famous quote from the movie Wall Street, "Greed is good," as I was watching the Credit Crisis video.

Had investors not been so greedy and just been content with a short-run windfall, the crisis may not have happened. Allowing sub-prime borrowers to qualify without the proper creditworthiness shows just how much greed investors had.

Thank goodness the housing market has finally recovered from those dark days. I never thought that I'd see the day that my home was worth less than I had borrowed five years prior, during the Credit Crisis. Thanks to the Dodd-Frank Act for establishing swap regulations, transparency and better protecting the American public (CFTC, 2021).

Reference

Commodity Futures Trading Commission (Accessed 2021, July 17). Dodd-Frank Act. CFTC. Retrieved from <https://www.cftc.gov/LawRegulation/DoddFrankAct/index.htm>

#3 GR
he federal reserves monetary policy is either expansionary or contractionary. Expansionary policy looks to slow unemployment and spur the economy. By lowering rates it provides low cost credit to prompt business to borrow and spend. This puts more money into the economy encouraging growth. Contractionary policies limit economic growth, increase employment, but slow inflation. Increasing rates will lower borrowing, and prompt people and business to save money and not expand or buy. This should lower the prices of goods and services.

I would say not really, looking back at the great recession (2008 to 2012) and COVID adjusting the borrowing rates has not particularly done a lot. The rates were bottomed out for a good portion of the great recession and the economy didn’t really move until the executive and legislative branch made pro-business policies. COVID then halted the world economy and again, lowering the interest rates didn’t really do anything.

 If you had money it was a great time to buy a house and a car, but if you were broke or lost your job that isn’t really putting money in your pocket. It’s the Federal relief programs that were saving people. They made it easier for people affected by COVID to borrow money, but again, those are loans that need to be paid back and even at a low interest rate. It isn’t really helping people as much as a job or social program would.

References

 Lumen Learning (n.d) Impacts of Federal Reserve Policies <https://courses.lumenlearning.com/boundless-economics/chapter/impacts-of-federal-reserve-policies/>