Economics
Keeping the Economy on Track with Fiscal Policy and Monetary Policy

Key Terms

- **Budget** – a plan for spending and saving.
- **Deficit spending** – government spending exceeds revenue collected during the year.
- **Discount or Prime Rate** – the interest rate the Federal Reserve charges member banks.
- **Entitlements** – a government program that benefits individuals for reasons of age or service such as Social Security, Veterans benefits, or unemployment compensation.
- **Excise Tax** – a tax on specific goods and services sometimes used to discourage consumption. Ex. Gasoline, cigarettes and alcoholic beverages are taxed.
- **Expenditures** – the amount of money spent.
- **Federal Reserve System** – a central banking system in the U.S. that is independent of any branch of government. Its main purpose is to regulate the money supply.
- **Fees** – taxes charged for using public services. Ex. Tolls, parking in parks, fishing licenses.
- **Fiscal Policy** – how the government plans and chooses to tax residents and spend revenue.
- **Fractional Reserve** – the system in which banks keep a portion of deposits and make loans with the rest.
- **Income Tax** – a tax on earnings; wages, and dividends or capital gains.
- **Inheritance Tax** – levied on a portion of estates over a certain amount of money.
- **Loose money policy** – policy used to stimulate economic growth by increasing the money supply.
- **Monetary Policy** – policy used to regulate the amount of money in circulation
- **Open Market Operations** – the Federal Reserve buys and sells government bonds for the purpose of controlling the money supply and interest rates.
- **Payroll Tax** – Taxes taken from paychecks for Medicare and Social Security (Fica)
- **Policy**- a plan of action, intent, or protocol set by a governmental body.
- **Progressive Tax** – the amount of tax one pays increases with income.
- **Proportional Tax** – Everyone pays a set percent regardless of income or value of assets. Ex. Property taxes are proportional.
- **Quantitative Easing** – monetary policy occasionally used to increase the money supply by securities on the open market.
• **Regressive Tax** - people pay a higher percentage of tax the less money they make. Ex. A sales tax is a regressive tax because poor people spend a higher percentage of their income on necessities.

• **Revenue** – the amount of money that comes in.

• **Sales Tax** – a tax on goods and services purchased paid by the consumer at point of purchase.

• **Surplus** – government revenue exceeds spending for the year.

• **Taxes** - the money the government takes in is called revenue. The revenue comes from assessments to individuals and businesses called taxes.

• **Tight money policy** – policy used to slow down inflation by limiting the money supply

• **Transfer Payments** – government payments to households or firms such as Veterans benefits, Social Security, and subsidies.