

Review Notes: Fiscal & Monetary Policy

D2. Fiscal Policy

1. Factors Influencing Fiscal Policy Decisions

- Governments decide how to **spend and collect money** based on:
 - **Economic conditions** (e.g., recession or growth)
 - **Public needs** (e.g., healthcare, education, infrastructure)
 - **Stakeholder demands** (e.g., businesses, unions, Indigenous communities)
 - **Political cycle** (e.g., election promises)
 - **Resource management** (e.g., oil, mining, forestry)

Example Question: What factors might influence government spending on infrastructure?

2. How People Influence Economic Policies

- Individuals and groups can **impact macroeconomic policies** through:
 - **Voting** for politicians with specific economic agendas
 - **Petitions, protests, and lobbying** to push for policy changes
 - **Boycotts or buycotts** to influence businesses and industries

The difference between **boycotts** and **buycotts** lies in their approach to influencing businesses and industries:

- **Boycott:** A protest where consumers refuse to buy products or services from a company to pressure them into changing their policies or practices.
 - *Example:* Avoiding fast fashion brands that exploit workers.
- **Buycott:** The opposite of a boycott, where consumers deliberately buy from companies that align with their values to support ethical or sustainable practices.
 - *Example:* Purchasing from eco-friendly brands to encourage sustainability.
 - **Social media campaigns** to raise awareness

Example Question: How effective are lobby groups in shaping Canadian economic policies?

3. Government & Industry Responses to Economic Change

- Institutions respond to **economic challenges** using:
 - **Moral suasion** (persuading businesses and banks to act in the economy's interest)
 - **Regulations** (laws to stabilize markets, protect workers, etc.)
 - **Public-private partnerships** (collaborations between the government and businesses)

Example Question: How does the government respond to rising unemployment?

4. Impact of Fiscal Policies on Individuals & Businesses

- **Government policies** affect spending, saving, and investment decisions:
 - **Taxes** (corporate, income) influence business growth and household spending
 - **Transfer payments** (e.g., EI, pensions) help redistribute wealth
 - **Housing policies** (e.g., down payment requirements) impact homeownership
 - **Tariffs** affect the cost of imported/exported goods

Example Question: How do tax credits for home construction impact the economy?

D3. Monetary Policy

1. Role of the Bank of Canada

- **Controls the money supply** and manages the economy using:
 - **Interest rates** (raising or lowering borrowing costs)
 - **Exchange rates** (affecting trade and investment)
 - **Reserve ratio** (how much money banks must hold in reserves)
 - **Lending practices** (affecting the availability of credit)

Example Question: How can the Bank of Canada respond to a recession?

2. Form & Function of Money in the Economy

- **Money serves three main purposes:**
 - **Medium of exchange** (used to buy/sell goods)
 - **Unit of account** (measures value)
 - **Store of value** (holds purchasing power over time)
- **Monetary policy affects the economy** through:
 - **Market forces & interest rates** (higher rates slow borrowing, lower rates encourage it)
 - **Exchange rates & trade** (stronger CAD = expensive exports, weaker CAD = cheaper exports)

Example Question: How do changes in interest rates impact trade?

3. Role of Financial Institutions

- **Types of financial institutions in Canada:**
 - **Big banks** (e.g., RBC, TD, BMO) – offer savings, loans, investments
 - **Near banks** (trust & loan companies) – provide financial services but are not full banks
 - **Brokerage firms** – help people invest in stocks, bonds, and securities
 - **Credit unions** – member-owned financial institutions
- **How they generate money:**
 - **Loans & interest** – banks make profits by charging interest on loans
 - **Investments & brokerage services** – financial institutions help people invest

Example Question: Why might an investor use a brokerage firm instead of managing their own investments?