**Economics Capstone Project - Unit 5**

**Capstone Activity:** Each unit will contain at least one assignment that will be saved as part of a culminating semester long final project. This unit, students will be given two scenarios with aggregate data that indicate certain problems within the economy. Students will need to identify the economic problems and the fiscal or monetary policy tools that could be used to solve these problems. They will also explain the pros and cons of these policy solutions and the likely outcomes we expect to see as a result.

***\*\*\*Reminder: Fiscal Policy is under the control of the President and Congress and involves taxing and spending choices. Monetary Policy is under the control of the Federal Reserve and involves changing the discount rate, the reserve rate, or buying or selling securities.***

**Scenario #1:**

**Assume you are a member of congress and you have just received the following economic report.**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_1 year ago\_\_\_\_\_\_\_\_3 months ago\_\_\_\_\_\_\_\_\_Current\_\_\_\_**

**Real GDP $ 750 Billion $720 Billion $705 Billion**

**Consumer Price Index 104 101 97**

**Unemployment Rate 5% 8% 10%**

***1. What phase of the business cycle is the economy in? What are the major problems the economy is facing?***

***2. Identify two fiscal policy actions you would recommend? How would these actions help solve current economic problems?***

***3. What are the consequences of these actions? Explain the pros and cons either politically or economically.***

**Scenario #2:**

**Assume you work for the Federal Reserve and you have just received the following economic report.**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_1 year ago\_\_\_\_\_\_\_\_3 months ago\_\_\_\_\_\_\_\_\_Current\_\_\_\_**

**Real GDP $ 750 Billion $775 Billion $805 Billion**

**Consumer Price Index 104 111 123**

**Unemployment Rate 9% 6% 4%**

***1. What phase of the business cycle is the economy in? What are the major problems the economy is facing?***

***2. Identify two monetary policy actions you would recommend? How would these actions help solve current economic problems?***

***3. What are the consequences of these actions? Explain the pros and cons either politically or economically.***

**\*\*\*Type the solutions to the two scenarios above as well as the answers to the following Essential Questions from the unit sheet:**

* 1. ***Draw a diagram of the Business cycle and label each phase. Explain the economic indicators of each phase.***
  2. ***What role does the Federal Reserve System play in regulating the U.S. Economy? What are the three main tools the Fed can use and how can they impact the economy?***
  3. ***What is inflation and how do we measure it? Who is helped and who is hurt by unanticipated inflation? Explain.***