# Developing recession with rising unemployment

[Economics](), [Macroeconomics]()

Developing Recession with Rising Unemployment The economy as we know it today is developing a recession with rising unemployment. The US economy has experienced a decrease in real output for one quarter and leading indicators point to continued contraction in the current quarter. The unemployment rate last month was 5. 8% and is expected to rise above 6% in the current quarter. With strict discipline, we can utilize fiscal or monetary policy tools in order to bring this nation back to an equilibrium state of mind. I will recommend in detail form how we can either use an expansionary fiscal policy or an expansionary monetary policy in order to achieve equilibrium. Either or, to bring this economy out of recession, an expansion of real GDP needs to occur to close this recessionary gap. First, we look at expansionary fiscal policy. The Federal government has at its discretion a number of tools available. An increase in government spending(G) and a decrease in taxes, ceteris paribus, will shift the demand curve rightward pushing the economy out of recession. With a decrease in taxes, an increase in disposable income(Yd) occurs, which in turn increases both consumers marginal propensity to consume and marginal propensity to save. An increase of MPC means more money is being spent in the economy increasing the demand for goods and services. An increase in consumption(C), investment(I), government spending(G), and net exports(Nx) will raise the overall level of economic activity, increasing aggregate demand and shifting the aggregate demand curve to the right. By shifting the aggregate demand curve to the right, we increase real output bringing the economy out of recession into full employment and equilibrium. Next, we will look at expansionary monetary policy tools the Federal Reserve System occupy to pull the economy out of a recessionary gap. The main policy tool the Fed utilizes is buying of government securities(bonds) on the open market to expand the economy. Buying bonds puts more money into banks total reserves and increasing the monetary base while increasing banks excess reserves. By increasing excess reserves, banks have a larger ability to lend to the consumer increasing the M1 money supply in the economy. Increasing the M1 money supply, puts more money in the pockets on consumers to spend on goods and services; increasing real output. The next, and least used, tool available is to lower the required reserve ratio toward the amount of money the banks are required to hold on hand as vault cash or in deposits at Federal Reserve Banks. Lowering the required ratio decreases required reserves, increases banks excess reserves and the money multiplier. Increasing excess reserves increases the lending activity of banks, decreases interest rates, and increases money creation through new checkable deposits. The next tool is to lower the discount rate of interest a bank pays to the Fed for overnight loans increasing banks total reserves. With an excess amount of reserves, banks will also increase lending ability to the consumer increasing money supply and consumer spending. The primary responsibility of the Federal Reserve System is to control the nation’s money supply and the short run impact toward expansionary monetary policy is to decrease interest rates and increase spending. With more money in the consumers pocket, a shift in the money supply curve to the right would occur, increasing aggregate demand and real output closing the recessionary gap; pulling the economy closer to equilibrium. As you can see, either using an expansionary fiscal or monetary policy will increase the demand for goods. It will also shift the aggregate demand curve or the money supply curve to the right increasing economic activity and real output. By doing this, we create more jobs lowering the unemployment rate and closing the recessionary gap towards equilibrium and full employment in the economy.