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| Fiscal      | The government changes the rates of taxes and changes the amount of spending to influence AD and economic activity. | -To stimulate growth in a recession.  
-To keep inflation low.  
-To stabilise the economy from a boom or recession. | -Expansionary, increasing AD = increasing, government spending, cut taxes, increase consumer spending | - worsen the government budget deficit  
- increase government borrowing.  
+ improve the government in the government budget deficit. |
|             |                                                                           |                                                                                  | -Deflationary, decreasing AD = cut government spending, increases taxes, reduced consumer spending |                                                                                  |
| Monetary    | Changing interest rates to influence the levels of consumer spending and AD. To keep inflation in-between -1 and 2%. | -If they expect higher inflation and higher growth, they will tend to increase interest rates.  
-If they expect lower growth and a fall in the inflation rate, they will tend to cut interest rates. | Loose= inflation falling or economic growth is slow or the economy is facing a recession. Cut interest rates; encourage spending.  
Tight= increase interest rates to reduce the growth and inflationary pressures. | -effects the exchange rates.  
- Home owners could not afford their mortgage  
- Lagging in the economic cycle  
- Liquidity Trap; a cut in interest rates fail to stimulate economic activity. |
| Supply Side | Increase the productivity and efficiency of the economy. Shift AS to the right (increase supply), increases productive potential. | To overcome recession, so in the recovery stage of the economic cycle. The Government could use this policy to lower the prices which avoids inflation. | 1. Privatisation, selling to private sector, efficient.  
2. Reduce income tax, work harder=more output.  
3. Increase education, improves productivity, and shifts AS.  
4. | + reduces unemployment  
+ lower inflation, shifts AS to the right.  
+ improved economic growth by increasing AS.  
+ improved trade and BoP. |
| Exchange Rate| Altering exchange rate to change AD and improve BoP.                      |                                                                                  | Stronger pound-  
-reduces excessive AD  
-Keep inflation down  
-exports suffer=job losses  
Weaker pound-  
-Raise AD and GDP | + stimulates the economy  
-exports or imports would be effected, job losses.  
-banks make less profit from loans. |