Financing Residential Real Estate

Lesson 4:

Government Policy and Real Estate Finance

Introduction

In this lesson, we will cover:

- federal government's fiscal policy
- taxation
- federal government's monetary policy
- Federal Reserve system
- tools for implementing monetary policy

Introduction

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Market interest rates = current cost of $

Introduction

The cost of borrowing money is influenced by the federal government in two ways:

1. fiscal policy, and
2. monetary policy.

Introduction

Fiscal policy

Government actions in raising revenue, spending money, and managing its debt.

Monetary policy

Government's direct efforts to control the money supply and the cost of money.

Fiscal Policy

Set by the government's executive and legislative branches (President and Congress), who establish federal tax laws and federal budget.

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U.S. Treasury Department carries out fiscal policy, in managing government finances.

Fiscal Policy
Spending and debt financing

Federal deficit

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  - This borrows money from private sector, leaving less available for private borrowers.

Fiscal Policy
Spending and debt financing

Some economists believe federal deficit has little effect on interest rates.

Others believe federal borrowing pushes interest rates up.

Fiscal Policy
Taxation

Low taxes = more $ to lend and invest

High taxes = less $ to lend or invest

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- More likely to invest in tax-exempt securities, instead of taxable investments.