

# Research Project 2

## Instructions

1. Do research on 4 economic policies:
  - Fiscal Policy
  - Monetary Policy
  - Interventionist Supply-Side Policy
  - Market-Based Supply-Side Policy
2. Answer the questions WITHIN the space provided.  
(ห้ามเขียนเกินหน้ากระดาษที่กำหนดไว้)
3. You can do your work on the IPAD or the printed worksheet (scan and submit), but DO NOT TYPE.  
(สามารถ Print แล้วเขียนแล้ว Scan ส่งได้ หรือเขียนบน IPAD แล้วส่งก็ได้ แต่ห้ามพิมพ์)
4. The submission is via Moodle, and the deadline is on Wednesday, 19<sup>th</sup> May.
5. Any student committing plagiarism or suspected plagiarism will receive a mark of 0.

## Grading Criteria

- A full mark will be awarded to those who can CORRECTLY answer the questions in the MOST CONCISE and EASY-TO-UNDERSTAND manner.
- Grammatical mistakes will have NO effect your mark, but please try to make your answer as readable as you can.
- You are not required to use all the space provided. Some questions require shorter explanations. As previously mentioned, the more concise, the better.

## Hints / Tips

- Try searching through "Google Image" where you will see a lot of tables.
- There are many on Youtube as well.

## Fiscal Policy

Briefly explain 2 pros:

Fiscal policy benefits include the ability to keep companies afloat as household spending on consumer products falls. Spending on military programs or infrastructure may have a positive impact on the economy. Unemployment and hunger will be reduced by an effective stimulus package. Fiscal policy interest rate changes have the advantage of avoiding any of the drawbacks of deficit spending. Changing the interest rate is a simple process that does not necessitate the same legislative wrangling as hiking taxes.

Extra:

A rise in interest rate, on the other hand, will take months before it has a major impact on customer demand or wages.

Briefly explain 2 cons:

Together with the advantages of monetary reform, policymakers must still accept the disadvantages. One major consideration is timing: if the policy isn't implemented automatically, it may take months to execute and years to have a noticeable impact. Stimulus spending will lead to inflation, in which incomes increase but prices rise in response to the extra cash.

Extra:

If policymakers continue to stimulate the economy for an extended period of time, the negative consequences may be serious. One is the debt will continue to rise uncontrollably. Even if it just seems that way, investors will begin to demand high interest rates in exchange for some cash.

## Monetary Policy

Briefly explain 2 pros:

Bank rate targeting keeps inflation under control. In a rising economy, a small amount of inflation is beneficial because it stimulates further spending and helps employees to expect higher salaries. Inflation is described as a rise in the overall price level of all goods and services in a given economy. Investment gets more costly as the target interest rate rises, slowing growth in the economy somewhat. It can achieve very simply. Financial institutions could use monetary policy tools easily. Mostly, just announcing their plans to the market is enough to get results. Financial institutions are completely independent and free. And if monetary policy actions are controversial, they may be implemented prior to.

Extra:

Export market could be boosted by reducing the currency. Devaluation of the local currency occurs as the monetary supply is increased or interest rates are lowered. A weakened currency on global markets will help increase exports by making these goods more affordable to international buyers.

Briefly explain 2 cons:

There is a time lag in effects. Then, if applied immediately, monetary policy's macro consequence typically take some times to manifest. It can take months or even years for the consequence on an economy to manifest. A few other economists claim that money is "just a veil," and that while it can stimulate an economy in the short run, it has no long-term consequence other than to raise the overall level of prices while increasing actual economic production. Technical Constraints, Interest rates will only be reduced to 0% nominally, limiting the bank's use of this policy instrument when rates are still poor.

Extra:

Maintaining very low interest rates for an extended period of time will result in a liquidity trap. During economic booms, monetary policy instruments are more successful than during downturns. Negative interest rate policies (NIRP) have recently been tried by several European central banks, but the findings will take time to emerge.

## Supply-Side Policy

### Definition:

Supply-side policies are a set of policies aimed at lowering prices, increasing production, growth, and foreign competition so that the economy can develop without inflating.

Give 3 examples of "INTERVENTIONIST" supply-side policies (no explanation needed):

Government spending on transportation, training, and information exchange should be increased.

Briefly explain how "INTERVENTIONIST" supply-side policies work

Where the economy is perceived to have struggled to supply capital goods and services, the government steps in.

Briefly explain ONE PRO and ONE CON of "INTERVENTIONIST" supply-side policies

Pro: Reduce costs thus increasing production or quantity. Assist in the expansion of the manufacturing sector, which would move the LRAS curve, or the SRAS curve on the Keynesian graph, to the right (increase in supply). Offer government assistance in the areas of investment, science and development, training and education, and work statistics.

Con: According to conventional wisdom, government interference may exacerbate allocative inefficiency. To successfully enact these measures, policymakers need high taxes and a massive infrastructure.

Give 3 examples of "MARKET-BASED" supply-side policies (no explanation needed):

Hayek's market-based approach includes some demand-side strategy as well. The labor market refers to the supply of jobs and labor.

Briefly explain how "MARKET-BASED" supply-side policies work

Market-based supply-side strategies tend to eliminate impediments to open markets functioning effectively. Hayek's market-based approach includes some demand-side strategy as well. He opposed Keynes' notion of running a budget deficit because he tried to regulate the money supply while reducing government spending.

Briefly explain ONE PRO and ONE CON of "MARKET-BASED" supply-side policies

Pro: Costs are reduced as a result of increased production and growth, and inflation is reduced as a result. International productivity gains may aid in the improvement of the balance of payments - Development, low prices, full jobs, strengthened balance of payments, and reduced government spending can all be pursued at the same time, resulting in less policy tensions.

Con: Some of the policies, such as investment or investments in public facilities and schooling, are so costly. These interventionist policies are expected to increase federal spending rather than decrease it, contradicting the need to shrink the public sector and limit government spending.