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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 Wedensday, 19th 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:

- Can Direct Spending To Specific Purposes – Unlike monetary policy tools, which are general in nature, a government can direct spending toward specific projects, sectors or regions to stimulate the economy where it is perceived to be needed to most
- Can Use Taxation to Discourage Negative Externalities – Taxing polluters or those that overuse limited resources can help remove the negative effects they cause while generating government revenue.

Extra:

- Short Time Lag – The effects of fiscal policy tools can be seen much quickly than the effects of monetay tools.

Briefly explain 2 cons:

- May Be Politically Motivated – Raising taxes can be unpopular and politically dangerous to implement.
- Tax Incentives May Be Spent on Imports – The effect of fiscal stimulus is muted when the money put into the economy through tax savings or government spending is spent on imports, sending that money abroad instead of keeping it in the local economy.

Extra:

- Can Create Budget Deficits – A government budget deficit is when it spends more money annually than it takes in. If spending is high and taxes are low for too long, such a deficit can continue to widen to dengerous levels.

Monetary Policy

Briefly explain 2 pros:

- Interest Rate Targeting Controls Inflation – A small amount of inflation is healthy for a growing economy as it encourages invesment in the future and allows workers to expect higher wages.
- Can Be Implemented Feirly Easily – Central banks can act quickly to use monetary policy tools. Often, just signaling their intentions to the market can yield results.

Extra:

- Central Bank Are Independent and Politically Neutral – Even if monetary policy action is unpopular, it can be undertaken before or during elections without the fear of political repercussions.

Briefly explain 2 cons:

- Effects Have a Time Lag – Even if implemented quickly, the marco effects of monetary policy generally occur after some time has passed. The effects on an economy may take months or even years to materialize.
- Technical Limitations – Interest rates can only be lowered nominally to 0%, which limits the bank's use of this policy tool when interest rates are already low. Keeping rates very low for prolonged periods of time can lead to liquidity trap.

Extra:

- The Risk of Hyperinflation – When interest rates are set too low, over-borrowing at artificially cheap rate can occur. This can then cause a speculative bubble, whereby prices increase too quickly and to absurdly high levels.

Supply-Side Policy

Definition:

Supply-side policies are government attempts to increase productivity and increase efficiency in the economy. If successful, they will shift aggregate supply (AS) to the right and enable higher economic growth in the long-run.

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

1. Public sector investment
2. Vocational training
3. Housing supply

Briefly explain how "INTERVENTIONIST" supply-side policies work

Lead to greater productivity or lower costs, encouraging a higher level of production and economic growth and employment.

1. Infrastructure invesment - Better infrastructure, roads, bridges, tunnels 2. Education - Invesments in the nation's labor force thorugh improve education

3. Investments by government in research and development - Research funded by government agencies can lead to scientific break throughs that ultimately increase efficiency and productivity

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

PRO - Focus on industrial markets the government can help the most promising industries for futuer profit, creating a better economy in the futher.

CON - As per classical theory governmental intervention could just create allocative inefficiency

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

1. Free trade

2. Tax cut

3. Deregulation

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

Reducing income and/or corporation tax rate, deregulating and/or privatising the public sector, encouraging free trade.

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

PRO - Deregulation markets can lead to increasing instability - consider the impact of "light-touch regulation" of financial markets before the 2007-2010 global financial crisis.

CON - Cutting government spending (including welfare) and borrowing. It will affect the government's finances.