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.

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Fiscal Policy

Briefly explain 2 pros:

: Unemployment Reduction - When unemployment is high, the government can employ an expansionary fiscal policy. This involves increasing spending or purchases and lowering taxes.

: Budget Deficit Reduction - A country has a budget deficit when its expenditures exceeds revenue. Since the economic effects of this deficit include increased public debt, the country can pursue contraction in its fiscal policy.

Extra:

Economic Growth Increase - The various fiscal measures a country employs facilitate expansion of the national economy. For example, when the government reduces tax rates, businesses and individuals will have a greater incentive to invest and steer the economy forward.

Briefly explain 2 cons:

: Conflict of Objectives - when the government uses a mix of expansionary and contractionary fiscal policy, a conflict of objectives can occur. If the international government wants to raise more money to increase its spending and stimulate economic growth, it can issues bonds to the public.

: Inflexibility - There are usually delays in the implementation of fiscal policy, because some proposed measures may have to go through legislative processes.

Extra:

Monetary Policy

Briefly explain 2 pros:

∴ Interest Rate Targeting Controls Inflation - A small amount of inflation is healthy for growing economy as it encourages investment in the future and allows workers to expect higher wages.

∴ Weakening the Currency Can Boost Exports - Increasing the money supply or lowering interest rates tends to devalue the local currency. A weaker currency on world markets can serve to boost exports as these products are effectively less expensive for foreigners to purchase.

Extra:

∴ Central Banks are independent and Politically Neutral - Even if monetary policy action is unpopular, it can be undertaken before or during elections without the fear of polictical repercussions

Briefly explain 2 cons:

∴ The Risk of Hyperinflation - when interest rates are set too low, over borrowing at artificially cheap rates can occur. This can then cause a speculative bubble, Whereby prices increase too quickly and to adsurdly high levels.

∴ It does not guarantee economy recovery - Economists who critizie the Federal Reserve on imposing monetary policy argue that during recessions, not all consumers would have the confidence to spend and take advantage of low interest rates, making it a disadvantage.

Extra:

∴ It is not that useful during global recessions - Proponents of expansionary monetary policy state that even if banks lower interest rates for consumers to spend more money during a global recession, the export sector would suffer.

Supply-Side Policy

Definition:

a range of policies designed to reduce costs, improve efficiency, productivity, and international competitiveness so that the economy can grow without experiencing inflation.

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

- Public sector investment
- Education
- Vocational training

Briefly explain how "INTERVENTIONIST" supply-side policies work

Interventionist supply-side policies involve government intervention to overcome market failure. For example, higher government spending on transport, education and communication.

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

Pro · Investment in human capital - investment in education and training will raise the levels of human capital and have a short-term impact on aggregate demand, but more importantly will increase LRAS.

Con · Budget constraints - the majority of these policies require large amounts of government spending and implementation of these policies may be limited by government's budget and their ability to borrow money.

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

- Deregulation
- Privatisation
- Trade liberalisation

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

Market-based policies limit the intervention of the government and allow the free market to eliminate imbalances. The forces of supply and demand are used.

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

Pro : Trade liberalisation - this involves reducing barriers to international trade such as removing tariffs and quotas. This encourages specialisation and trade and increases the number of goods and services available to consumers.

Con : Increase inequality - these reforms may cause the low income earners and the unemployed to find their incomes falling relative to that of other members of society. The incentive based policy of cutting the income tax which is progressive in nature will also result in more inequality.