

Fiscal Policy

Briefly explain 2 pros:

Spending to specific purposes directly - gov't. can spending toward specific projects, sectors or regions to stimulate the economy where it's perceived to be needed to most.

Can use taxation to discourage negative externalities - taxing polluters or those that overused resources can help remove the negative effects they cause while generating revenue.

Extra:

Assisting economy, gov't. increasing its own spending to cool down an overheating economy.

Briefly explain 2 cons:

Create budget deficits - occurs when it spends more money annually than it takes.

May be politically motivated - raising taxes can be politically dangerous to implement.

Extra:

The effect of fiscal policy stimulus is muted when money put into the economy through tax saving or gov't. spending is spent on imports, sending money abroad instead keeping in local economy.

Monetary Policy

Briefly explain 2 pros:

CB are independent - Even if monetary policy action is unpopular, it can be undertaken before elections without the fear of political repercussions.

Weakening the currency can boost exports - lowering i/r tends to devalue the local currency. / less expensive products for foreigners.

Extra:

To stimulate a faltering economy, CB cuts i/r , making less expensive to borrow. So, M_s increase.

Briefly explain 2 cons:

Technical limitations - i/r can only be lowered nominally 0% which limits the bank's use of this policy tool when i/r are already low. Keeping rates very low for prolonged periods of time can lead to liquidity trap.

Affects an entire countries - monetary tools have an economy wide impact while some countries might not need to stimulus.

Extra:

Even if implemented quickly, macro effects of monetary policy generally occur after some time has passed called time lag.

Supply-Side Policy

Definition:

Govt attempts to increase aggregate supply and enable higher economic growth in long-run.

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

- 1) Improving transport and infrastructure
- 2) Improved health care
- 3) Build more affordable homes.

Briefly explain how "INTERVENTIONIST" supply-side policies work

Involve govt. intervention to overcome mkt. failure. For instance, increase govt. spending on transport, education, and communication.

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

Pros - govt. encourages the quality of life such as transport, education, health care.

Cons - It's expensive. For example, for the govt. improve human capital, it will need to sponsor or subsidize education and training programs. / take long time work.

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

1) Deregulation

2) Income tax cuts

3) Reduce welfare benefits

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

Involve policies to increase competitiveness and free-mkt. efficiency.

For instance, reduce power of trade unions, deregulation, and privatisation.

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

Pros - lower unemployment b/c it reduces tariff barriers and other obstacle trades, encouraging free trade.

Cons - Some specific types of policy may strongly resisted as they may reduce the power of interest group. For example, in product mkt., profits may suffer as a result of competition policy.