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.

Pitchayapa Senavat 6304641126

Fiscal Policy

Briefly explain 2 pros:

- Can direct spending to specific purpose : Unlike monetary policy tools, which are generate 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 discorage negative externalities : Taxing polluters or those that over use 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 quicker than the effects of monetary tools.

Briefly explain 2 cons:

- Tax incentive may be spent on imports : The effect of fiscalstimulus 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.
- 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 countinue to widen to dangerous level.

Extra:

- May be politically motivated : Raising taxes can be unpopular and politically dangerous to implement.

Monetary Policy

Briefly explain 2 pros:

- Interest rate targeting controls inflation: A small amount for a growing economy as it encourages investment in the future and allows workers to expect higher wages. Inflation occurs when the general price levels of all good and services in an economy increase. By raising the target interest rate investment becomes more expensive and works to slow economic growth a bit.
- 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:

- Can be implemented fairly easily: Central banks can ach quickly to use monetary policy tools. Often, just signaling their intentions to the market can yield results.
- Central banks are independent and politically neutral: Even if monetary policy action is unpopular, it can be undertaken before

Briefly explain 2 cons:

- Technical limitation: Interest rates can only be lowered nominally to 0%, which limits the bank's use of this policy tool when interest rates very low for prolonged periods of time can lead to a liquidity trap. This tends to make monetary policy tools more effective during economic expansions. Some European central banks have recently experimented with a (NIRP) but result won't be know for sometime to come
- Monetary tools are general and affect an entire country: Monetary policy tools such as interest rate levels have an economy-wide impact and do not account for the fact some areas in the country might not need the stimulus, while states with high employment might need the stimuluse more.

Extra:

- Effects have time lag: Even if implemented quickly, the macro affect of monetery policy generally occur after some time has passed. The effects on an economy may take months or even years to materialize. Some economists believe money is "merely a veil", and while serving to stimulate an economy in the short-run it has no long-term effects except for raising the general level of prices without boosting real economic output.

Supply-Side Policy

Definition:

Supply-side policies include a range of policies designed to reduce costs, improve efficiency, productivity, and international competitiveness so that the economy can grow

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 or transport, education and communication.

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

Pro of interventionist is helping grow the industrial sector and in turn shift the LRAS curve on the keynesian graph the SRAS curve to the right (increase supply)

Con of interventionist is governments need high taxes and a large infrastructure to effectively implement these policies.

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

- Privatisation
- Deregulation
- Free-trade agreements

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

Market-based supply-side policies involve policies to increase competitiveness and free-market efficiency. For example, privatisation, deregulation, lower income tax rates, and reduce power of trade unions.

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

Pro of market-based is reducing government spending and borrowing: Maket-based argue that high level of government spending, particularly if it is financed by borrowing 'crowds out' the private sector. It is argued that government borrowing drive up interest rates and deters private sector investment, which maket based believe is usually more productive.

Con of market-based is lower taxes on businesses and households: Corpation tax is a tax on company profits. Reducing it means companies have more money to invest in their business. But unless public spending is reduced, the taxes revenue will have to be raise from other taxes. High rates of income tax and national insurance may discourage workers taking jobs or doing extra hours. National insurance contributions also have to be paid by employers for their workers. It cantharefore be seen as a tax on job, leading to lower levels of employment.