Fiscal Policy

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Briefly explain 2 pros:

1. It helps fuel the economic growth of the nation, especially during a recession. Hence, it is typically adopted during low-growth phases. It reduces restrictions on loan applications and interest rates, and leads to an increased outpouring of capital into the economy.

Extra:

2. Due to an increase in revenue and profits, there is a rising demand for labor. Since borrowing is made easier, companies find it profitable to increase operations and hire new employees. Thus, it lead to reduced unemployment.

Briefly explain 2 cons:

1. It increases the expenditure of the goverment, thereby leading to reduced taxation. A reduction in taxes would lead to an increase in the deficit of the government's budget. This would lead to high borrowing and rising government debt.

Extra:

2. It reduces economic growth since there is reduced supply of money. Reduced prices, less demand, leads to stunted economic growth.

Monetary Policy

Briefly explain 2 pros:

1. 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 political repercussions.

Extra:

2. Interest rate targeting controls inflation - by raising the target interest rate, investment becomes more expensive and works to slow economic growth a bit.

Briefly explain 2 cons:

1. The risk of hyperinflation - When interest rates are set too low, over-borrowing at artificially cheap rates can occur. This can then cause a specalative bubble, whereby prices increase too quickly and to absurdly high levels.

Extra:

2. 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 a liquidity trap.

Supply-Side Policy

Definition:

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

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

1. Higher government spending on transport
2. Education and communication
3. Improved healthcare

Briefly explain how "INTERVENTIONIST" supply-side policies work

Interventionist policies rely on the government intervening in the market.

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

Pro - Better health care can improve long-term labour productivity as workers with better health can work for longer and take less time off due to sickness.

Con - Government health care will require higher tax. Higher income tax may lead to lower incentives to work (though whilst taxes will rise, health insurance costs will be lower.

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

1. Encourage immigration
2. Reducing unemployment benefits
3. Reducing income tax rates

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

Market-based policies limit the intervention of 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 - Strength of labor market reforms
Promote free market forces in labour markets, allowing the allocation of resources to improve.

Con - Market failures
Negative enviromental externalities (of production and consumption) and the problems of common access resources.