

Research Project 2

Instructions

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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 Wednesday, 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:

- Fiscal policy tools 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 the most.
- Can use taxation to discourage negative externalities → Taxing polluters 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 quicker than the effects of monetary 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 dangerous 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 investment in the future and allows workers to expect higher wages. By raising the target interest rate, investment becomes more expensive and works to slow economic growth a bit.
- **Weakening the currency can boost exports** → a weak currency on world markets can serve to boost exports as these products are effectively less expensive for foreigners to purchase.

Extra:

- Central banks can act quickly to use monetary policy tools.
- **Central banks are independent and politically neutral** → Even if monetary policy action is unpopular, it can be undertaken before/during elections without the fear of political 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 absurdly high levels.
- **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**.

Extra:

- Monetary policy tools have an economy-wide impact (can't solve a specific problem).
- **Time Lag** → Even if implemented quickly, the macro effects of monetary policy generally occur after some time has passed. The effects on an economy may take months or even years to materialize.

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 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

Government provides capital goods and services where it is believed that the market has failed to provide them. (Interventions to reduce poverty, provision of key public goods, policies to lift human capital, and building more social housing).

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

- PRO → Offer opportunities for government support in investment, research and development, education and training, and provision of job information.
- CON → People become economically inactive – they stop being active search for work.

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

- Privatisation
- Deregulation
- Income tax cuts

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

Market based policy aims to allow markets to work more freely with minimal government intervention. (Cutting government spending, lower business taxes, reducing red-tape, and lower income tax rates)

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

- **PRO** → Reducing income tax may provide an incentive for workers to work harder and for longer hours as they get to keep a higher proportion of their income and so increase productivity.
- **CON** → Reducing labour market protections can make the jobs market more flexible but it risk increasing employment and income insecurity and cutting investment in training/skills.