

Research Project 2 ^(mydear)

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 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:

- If use Government spending, can direct spending towards area in need, for example infrastructure, education, technology, services, and make investment for the future.
- While fiscal policy may lead to government deficits, debts, we should look at debt / Gross domestic product (GDP) ratio. As only as GDP grows, it can bring down the debt / GDP ratio.

Extra:

- using a balance budget can provide a stimulus without adding to the government budget deficit and can use "green" taxes to discourage polluting activities.
- Expansionary fiscal policy can create more job opportunities for people and stimulate employment.
- Contractionary Fiscal policy can be employed to reduce budget deficit by increase tax revenue or lowering public spending.

Briefly explain 2 cons:

- High budget deficit due to overspending may weaken the domestic currency, reduce the faith of people in domestic currency. Moreover, trade deficit may increase and upward pressure on interest rate, discouraging growth.
- Conflict between levels of government over appropriate policies. Federal, provincial and city governments may differ on what needs to be done.

Extra:

- Tax rates may be spent on imports, thus leaking out of the circular flow.
- possible negative multiplier effects as a result of crowding out effects.
- There are usually delays in implementation of fiscal policy amid legislative processes.

Monetary Policy

Briefly explain 2 pros:

- It can promote low inflation rates - one of the biggest perks of monetary policy is that it can help promote stable prices, which are very helpful in ensuring inflation rates will stay low throughout the country and even the world.
- It promotes transparency and predictability - a monetary would be oblige policymakers to make announcements that are believable to consumers and business owners in terms of the type of policy to be expected in the future.

Extra:

- It can bring out the possibility of more investments coming in and consumers spending more.
- It allows for the imposition of quantitative easing by the central bank.
- It can lead to lower rates of mortgage payments.

Briefly explain 2 cons:

- Its ability to cut interest rates is not a guarantee - though a monetary policy is said to allow banks to enjoy lower interest rates from the central bank when they borrow money, some of them might have the funds, which means that there would be insufficient funds that people can borrow from them.
- does not guarantee economy recovery because during recessions, not all consumers would have the confidence to spend and take advantage of low interest rates, making it a disadvantages.

Extra:

- It is not useful during global recessions → if banks lower interest rates for consumers to spend more money during a global recession, the export sector would suffer.
- It could discourage business to expand when interest rates increase (businesses not willing to expand their operations).

Supply-Side Policy

Definition:

supply-side policies focus on improving the structural long-term performance/competitiveness of an economy, policies that improve the productive potential/capacity of an economy. Illustrated by an outward shift of LRAS.

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

- public sector investment in infrastructure improve transport and reduce costs.
- Education - increase funding to schools and universities - improve labour productivity.
- Health spending - public spending on health can reduce hours lost to ill-health.

Briefly explain how "INTERVENTIONIST" supply-side policies work

- Achieve a sustained improvement in the possible trade-off between inflation & unemployment.
- Raise living standards through stronger long term economic growth / an increase in underlying trend rate growth
- Improve competitiveness in global markets and achieve a stronger balance of trade in goods and services.
- Be more flexible in response to external demand and supply side shocks such as rising energy prices.

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

PRO: can help reduce inflationary pressure in the long term because of efficiency and productivity gain in the product and labour markets. They can also help create real jobs and sustainable growth through their positive effect on labour productivity & competitiveness.

CON: supply-side policy can take a long period to work its way through the economy. For example, improving the quality of human capital, through education and training, is unlikely to yield quick results.

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

- Flexible labour markets - reduce power of trade unions, min wages and Regulations.
- Free-trade agreements - reduce tariff barriers and obstacles to trade.
- Reduce welfare benefits - increase incentive to get job.

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

Reducing unemployment benefits: Reduce income, increase incentive to find work.

Reducing job security: Reduce security, decrease risk taken by employer, reduce cost increase firm profits, increase investment.

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

- PRO: it is objective, in perfectly competitive markets, it will generally lead to optimal decisions, it improving the flexibility of the labour market including reforming employment laws and encouraging more part time work.
- CON: many intermediate products are not traded in competitive markets, so no market price exists and some market prices fluctuate considerably.