Measuring economic health memo

Measuring Economic Health (College Economic Health Memo The market value of entire goods and services produced in a country within a given period of time can be regarded as Gross Domestic Product (GDP). As Rittenberg, & Tregarthen (n. d.), opine, the effective measurement of GDP is very helpful to assess the business cycle. The phases of the business cycle are sub categorized into four, they are: 1) Expansion, 2) Peak, 3) Contraction or recession, and 4) Trough. There is a variety of factors that influence a business cycle. Large changes in global economy or political atmosphere are the main causes that would lead to deviations in business cycle (Business cycles). Similarly, availability of credit, money, and business investment also play a vital role in turning the business cycle. The difference between actual GDP and potential GDP constitutes GDP gap. If the GDP gap is a positive number, it is known as inflationary gap and is stated as the direct indication of inflation. In contrast, during the times of deflation, the GDP gap shows a negative number and it is called recessionary gap. In the other phases of business cycle, the output gap differs accordingly. In order to stabilize a country's economy, different governmental agencies always deal with national fiscal policies. A national fiscal policy refers to the way in which a government plans its expenditure and taxation so as to influence the economy. For this purpose, as Ambekar (n. d.) points out, the regulators (governmental agencies) mainly deal with tax, interest rates, and government spending since these factors have a direct impact on nation's economy. The Federal Reserve is the main regulator of United States, which largely focuses on the supply of money as it a fruitful method to keep the inflation down. The concerned government agencies will be always in touch with country's economic trends. GDP measurement assists to analyze the

trend of the business cycle, which in turn aids the concerned regulatory agencies to make appropriate changes in the national fiscal policy. According to Riley and College (2006, the governmental fiscal policies very much affect the economy's production and employment. The developing economies would probably have low levels of income and insufficient investments so that it impedes faster economic growth. However, the effective application of fiscal policies would benefit the nation to mobilize the resources. The fiscal policies also maintain provisions for the allocation of mobilized resources on the basis of potentiality of different channels and hence it contributes to nation's increased productivity. Similarly, increased government spending on social welfare activities will certainly add to wealth inequality minimization. When the government employs this tool, it is possible to redistribute the incomes in favor of the poor. In contrast, if the regulators cut down the public sector spending, it would negatively affect the economy's production. High employment rate is another beneficial outcome of the thoughtful application of fiscal policies. When the concerned governmental agencies declare financial incentives such as tax-rebates and other concessions, many industries which have high employment potential would get the opportunity to grow further. For instance, US government's green energy project provides huge subsidies to these business sectors and which in turn produce large employment opportunities. An increased unemployment trend will be shown if government agencies stop providing fiscal incentives to firms.

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