Good and bad effects of recession economics essay

When people hear the word “ recession”, most of them may think about the negative effects only since most of issues about the recession mentioned by mass media are negative. However, there are some positive effects that an Austrian-American economist Joseph Schumpeter even called the recessions as “ a necessary evil in capitalist societies”. Despite the world recession menaced people, it corrects the unbalanced developments, creates chances for investors to invest, the rate of personal savings increase, borrowing money and credit will be decreased.

Recession corrects the unbalanced developments.

The recession corrects the unbalanced developments of economy to be realistic and makes the economic growth to be stable. The recession makes some companies to go bankrupt, removes weaken survivors but strengthens strong survivors by forcing them to optimize or run the business with new plans to produce better goods. Even the recession incurs unemployment, it can be explained as removing inefficient labor forces to be used efficiently somewhere else in a flexible market. Recession does give crucial effects in economy but in a way, it’s a necessary period to make the economy stronger and healthier.

Recession gives chances to investors to invest.

During the recession, the price of most stocks will be declined. But investors can embrace the crisis as an opportunity to invest their money to buy stocks of high quality companies which the prices are declined. People won’t make profit from it in short run but it is a great chance to get profit in long term perspectives when the recession is stabilized.

Increase in the rate of personal savings.

During the recession people tend to hold their money with them or save them. People are likely to save money to spend them in future rather than spending immediately because when the recession happens, people lose jobs which mean they do not have earnings to spend them as they have jobs. Since the value of the money declines continuously during the recession, people prefer to keep their money instead of spending them.

Borrowing money and use of credits will be reduced.

People do not spend their money during recession because the general price level of goods declines continuously during this period and the value of money increases correspondently. During this period of time, people become prudent. They use their money to buy necessary goods such as foods and clothing and do not buy unnecessary goods which people can survive without them. Therefore, the borrowing rate and the use of credits will be reduced as well.

2) Highlight some of the measures that countries can take to overcome the problem.

The general reasons or factors of recession are the trade deficit, unemployment, reduction in household income and inflation. In order to overcome the recession, a country's GDP should be increased. The total GDP equals to the sum of consumption, investment, government spending and net export of a country which means any increase in one of these four factors would lead the GDP to be increased. There are some ways that a country's government can increase the GDP.

To stimulate consumption in an economy, the government can inject more money in to the economy by reducing the interest rate. If the interest rate decreases, people would get less interest from banks which is less worthy to save money into bank. Rather than keeping their money in their banks, people would use their money in investments. Decreased interest rates also mean people can borrow money from banks with little interest. Some people will borrow money and buy real estate or open new businesses. These situations will activate the flow of money in an economy.

Government can improve tax collection to finance its expenditures such as its subsidy for businesses and other social welfare. If businesses get subsidy from the government, they can use them to invest or increase the salary for their labors or hire more labors and this kind of choice boost the circulation of money flow which will slowly covers the recession. Improvement in social welfare can quell the riots and panic in a country and restore confidence of citizens.

The government can encourage the country's exports because it would inject necessary foreign currencies that can lead trade surplus. Government can give subsidy or reduce tax for businesses so they can put more effort in producing competitive outputs with high quality and better design. Businesses can lower the price of their products to increase the exports. If the businesses' profit increases, they may hire more workers to produce more outputs and this also can reduce the unemployment. A country's government has to support the small companies and the banks not to go bankrupt. The government should also provide better environment or condition to businesses and not change the law or regulations too often because it gives chaos to businesses' plans or confuse them.

For an example of a model country, in US Obama and the U. S congress declared that they will support fifteen hundred million dollars for the magnifying of employment, the youth's vocational education and give tax deduction to the employers who employ the youths. This is a great solution that other countries' government can follow the U. S economic policy. The government has to focus on not only the big companies but also the minor enterprises since the small businesses are responsible for the ninety percent of the employment rate. Most people believe that the big businesses such as Samsung or Sony have the superpower to maintain the economy. But during the recession, big businesses are relatively safe and less affected because they have gained successful reputation and use their own tactics to run the business. However, many of those small businesses may go bankrupt which then affect the big businesses since the small businesses are linked with big businesses such as supplying their products to big businesses.

Conclusion

Every country faces recession spontaneously and periodically. It usually occurs because of the failure of economic policies made by a country's government. However, there are some good effects that a country may find and experience from the recession and there are solutions as well to solve it. It is difficult to prevent recession because it sometimes arises from unexpected factor. However, well prepared government policies can reduce the impacts of crisis. Therefore, a government of a country should be well-aware of social, economic and global issues.