Macroeconomics: comments

Economics, Macroeconomics

One of the advantages of using monetary policy would be the fact that all of the policies under this regime are all highly impersonal since all of the decisions to make regarding the condition of the economy are all based on the empirical data and not on the value judgment of the government authorities. Moreover, monetary policy is more flexible than fiscal policy since the Federal Open Market Committee meets about every six weeks to make decisions regarding the condition of the economy and the immediate implementation of the said decisions (Faculty. etsu. edu, 2007).

On the other hand, one of the possible draw back from using monetary policy would be the fact that monetary policy only offers short term economic activity and do not guarantee a sustainable activity in the long run. Moreover, monetary policy can easily be affected by external factors such as oil price hike and exchange rate which has a direct effect on the performance of any monetary policy the federal government currently have.

As for the advantages of fiscal policy, this can increase the government revenue through the process of raising the tax rate and/or tariff on import goods. Moreover, fiscal policy can also attract productivity as the government provides incentives to those domestic and foreign investors just to keep the economy in balance. On the other hand, fiscal policy, is relatively less flexible a compared to the monetary policy since it takes a long time before the government officials make decisions regarding the economic conditions of the country.

Oftentimes, they only meet once a year to settle all of the economic policies that the federal government will implement for the rest of the year.

Moreover, fiscal policy intervenes into the private sector which sometimes causes economic losses on the part of the consumers and the producers, like tax. Fiscal policy is also highly subjective and usually based on the value judgment of the federal officials even if there are empirical facts at hand.

Answer 1. 2

One of the possible factors that trigger crowding out would be through expanding the government borrowing in order tofinancean increase in expenditure. Cutting of tax can also lead to crowding out since private sector is being ‘ crowd out’ from their investment through higher interest rate. In other words, when the government raises its borrowing in themoneymarket, it causes an increase of the interest rate in the market which ‘ crowds out’ private investors and individuals from the lending market.

Answer 1. 3

Automatic stabilizers like reduction on tax rate tend to mitigate output fluctuation without any explicit government action; therefore, there is no need for the government to make discretionary policies or make value judgment regarding a certain economic situation since automatic stabilizers already reduces the ‘ economic problems’ that the government officials will have to solve.

Answer 2. 1

Whenever there is a high inflation rate existing in the economy, what then government usually does is to lower down its spending in order to put pressure for the aggregate demand of the economy to depreciate making way for the decrease in market prices. At the end of the day, inflation rate starts to slow down as the aggregate spending decreases due to the cutting of government spending. In other words, high inflation rate causes budget surplus since thegovernmenthas to regulate its spending.

On the other hand, whenever there is a low inflation rate in the economy, the tendency of the government is to intentionally acquire budget deficit since it has to increase its spending to create additional market for the business sector which eventually stabilize the market price condition. In short, if there is a low inflation rate, it is expected that the government will incur budget deficit due to the increase of its spending to stabilize the market price.

Answer 2. 2

I believeyes, size of assets must serves as basis in judging the budget deficit, in order to determine how the government spends withrespectto the amount of assets that it presently holds. Having a large government asset can give way for a higher budget deficit since the government can use those assets as collaterals for those persons or financial institutions where the government will borrow money just to finance its activities. In short, having a large budget deficit is not a problem for as long as the government has large amount of assets on its hands.

Answer 2. 3

Pay-as-you-go is a system of paying a debt as they incurred, or it is a system of paying a good or service as it is used than as n outright purchase. One of the possible applications of this would be the pay-as-you-go tax wherein it is a system of paying a debt of businesses or individuals on an installment basis of their expected tax liability.

Answer 3

Now I understand why the government sometimes acquires budget deficits and how inflation rate is related to the budget condition of our government. I find this issue interesting since although there is no direct relationship between inflation rate and government budget condition, still, after noting all of the economic factors in our country, it is clear that inflation affects the government budget condition indirectly and vice versa.

Moreover, I learned that the federal government uses either monetary or fiscal policy depending on the type of economic condition is at hand based from the identified strengths and weaknesses of the two policy regime. It is surprising how these policies affects all the economic activities in the country although we cannot see it through our own eyes. It’s just like; these policies are acting invisible in our economy and solving economic turmoil of our country. At the end of the day, whichever policy regime will the government implement, what is important would be the end effect of all of the policies that the government will put into action to solve a given economic problem.

References

Faculty. etsu. edu. (2007). Fiscal versus Monetary Policy. Retrieved March 19, 2008, from http://faculty. etsu. edu/hipples/FPvsMP. htm