

# Economic analysis essays example

[Sociology](#), [Poverty](#)



## **Introduction**

In order to ventilate on whether poor countries around the globe get richer, the author explores the possibility that poverty traps exist, and they ensure that even if the economic performance of poor countries is at par or even better than that of rich countries over a similar period, poor countries remain poor over time. I argue that the possibility of poor countries getting richer is impeded by protracted periods of negative economic growth and stagnation in the national incomes.

## **Discussion**

The economic growth of a country is influenced by many factors, among them, per-capita income. Per capita income is very potent indicator of the standard of living and prosperity of an economy. As the average income of the population in an economy, per capita income relates to economic growth. An increase in the per capita income over successive financial years shows an increase in the economic growth. Of course, there is need to consider the fact that an increase in the population of a country in the backdrop of stagnating national income will affect the per capita income negatively. Additionally, it is also important to adjust the per capita income for factors like inflation and increases and decreases in the prices of products in national and international markets. The author adduces statistics to show that in the half a century after 1960, the poorest twenty countries experienced the same growth in real per capita GDP as their rich counterparts. However, when this period is divided into decades, statistics show that these countries experienced negative and low economic growth.

When these periods of low or negative economic growth are protracted, it is difficult for a poor country to get richer.

The economic growth of a country is also dependent in the national incomes. As highlighted earlier, I argue that low and stagnating incomes are an impediment for poor countries looking to get rich. National incomes relate to surplus money for investments in the economy. Stagnating national incomes means that there are fewer investments in the economy. This is because the surplus income that can be used for investment is the difference between income and expenditure among the population. Stagnating national incomes reflect on even lower incomes at the individual level. The output of an economy is a coefficient of the national income. Increased investments resulting from increased surplus income result to an increased national output. Of course this is an ideal situation where all the market forces are favorable. Nonetheless, the principle is that an increase in the national output is dependent on increased investments in the economy. In his article, the author argues that stagnating incomes in countries like Nicaragua, Haiti and Burundi over extended periods have impeded the ability of these countries to rise from poverty.

## **Conclusion**

In answering his question, the author agrees that poverty traps have been blown out of proportion. Nonetheless, he acknowledges the effects of protracted periods of income stagnation on an economy. In congruence with his arguments, I find that per capita income and the national income are indicators of an economy. The discussion showed that on average, poor and rich countries experienced equal growth in the per capita income in the half

century after 1960. Nonetheless, where such information is considered decade wise, poor countries showed reduced standards of living. Poor countries can get rich. However, as long as they continue to report low per capita incomes and stagnating national incomes, poor countries will continue to be poor.

### Introduction

The literature adduced in this article is very relevant, especially now that governments and economies are still reeling from the effects of economic recession in the recent past. The concepts that the author ventilates on are important in understanding the role of central banks in regulating the effects of inflation and interest rates in order to help the economies come out of recession. The author appears to ridicule the efforts of central banks in various economies. During times of economic recession, central banks take certain measures in order to help the economy out of recession. After a given period, central banks halt these measures based on the thought that the economies are out of recession. Based on the potential effects of a further slump in the economy after central banks have halted their measures, this paper argues that such measures should only be halted when the central banks are absolutely sure that the economy can sustain itself.

### Discussion

In terms of monetary policy, central banks have more options and fewer risks where there is inflation in the economy. In instances where the inflation rates in an economy are uncontrollably high, the central banks have the option of increasing interest rates in order to curb further escalations in the inflation rates. This is very helpful in mitigating economic recessions. Additionally, it

motivates people to invest in capital projects that are non-monetary in nature. This helps to reduce the supply of money in the market, thereby improving the value of currency. On the contrary, when the inflation rates are running low, the central banks do not have the option of lowering interest rates. This means that the central banks have to resort to unconventional monetary policies in order to increase inflation expectations. This is the argument the paper is raising. The way to avoid zero lower bound in times of negative inflation is rapid growth.

While cautiousness is encouraged, it is important for central banks to ensure that the stimuli given to the economy through unconventional monetary policies to spur economic growth do not suffer from fatigue. One of the stimuli programs that central banks use is the asset purchase programs. A reduction in interest rates would spur increased borrowing and investment in the economy in order to enhance growth. However a zero interest economy does not function well. The asset-purchase programme allows the central banks to increase the supply of money in the economy. This helps to increase the level of investment in the economy to ideally spur economy growth. The risk in this monetary policy is that fatigue may set in to the stimuli. For instance, central banks might be forced to abandon the asset purchase programs in case they are not effective in increasing the rates of inflation.

## **Conclusion**

Given that central banks are the regulator of monetary policies, it is important for central banks not to pull out before the economy has stabilized entirely. Unless central banks are ready to initiate the program soon after

the inflation rate starts reducing, they should not stop such programmes until the economy is stable. This is because the effects of the economy slipping back into recession barely before it recovers are very devastating. It is for this reason that the paper concludes that these measures should only be halted when the central banks are absolutely sure that the economy can sustain itself.

Works cited