

# The fiscal and monetary policy and economic fluctuations research paper samples

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## **The Professor's Name**

The economy of the United States is one of the largest national economies in the world, with its GDP(purchasing power parity) of 16. 24 trillion dollars in 2012 (World Factbook, 2014). The country's economy is growing continuously as it has its GDP growth rate is 2. 8% as of 2012 (World Factbook, 2014). As the data on interest rates, inflation, and unemployment rate is available for the year 2013 at the latest, I will be analyzing the economic situation in the US for the period of 2009-2013. Even though the country's macroeconomic condition decreased after experiencing the Global Financial Crisis, it managed to stabilize the economy after the year 2009. Studying the economic situation, we can observe that the unemployment rate, which measures the number of people actively looking for a job as a percentage of the labor force, is 7. 20 in 2013 compared to 9. 90% in 2009 (World Factbook, 2014). It is said that the rapid drop in unemployment is considered as one of the biggest accomplishments of the current president, so people call it " Obama Recovery". As for the inflation rate, an annual change in the CPI which shows the changes in the price level of goods and services purchased by households, it changed to 1. 7% in 2013 from 0. 1% in 2009 (Calculator, U. I., 2014). Consumer prices jumped high in 2013 as a result of increase in the cost of gasoline. Interest rates played an important role in the economic recession as well. For example, because of the low interest rates that banks offered, many people had decided to use the chance and buy the houses they could not afford, which eventually, made banks lose substantially and contribute to the recession of the economy. Though, the economy of the US is still experiencing recession, the country is

gradually progressing.

It is worth to identify the causes of changes in interest rates, inflation, and unemployment rates, so that we can explain how they altered over the period between 2009 and 2013. The government of the USA timely managed to react to the issue of unemployment and created job positions which helped to fuel the progress in the labor market further. The economy recovery helped to maintain a good condition in the interest rates as well. The Federal Reserve (the Fed), which is the central bank of the United States, has a great influence over the interest rate in the US economy. Though the Fed does not influence it directly, it still has indirect ways to impact the interest rates for the help to control low unemployment rates and inflation. Federal Reserve Chairman Ben Bernanke recently said that given the current conditions of the economy, the federal funds rate is expected to stay at "exceptionally low levels for an extended period." So, we see that the interest rates have been very low, but they are likely to begin increasing in the near future. Actually, there are different factors that affect the interest rate, one of which is inflation. It reflects the difference between the nominal and real interest rates. Thus, because of inflation, when people lend money to the government, they get their money back, but each dollar they receive is worth less. So, adjusted to the inflation, the real rate of interest they get is less than the nominal one. This is the reason why the times of high interest rates often correspond to times of high inflation. Though the unemployment is lower now than it was 5 years ago, the inflation, on the contrary, rose to a larger rate (World Bank, 2012).

The fiscal policy options allocated the existing resources to cut/raise tax

rates and decide which component of the existing budget might be protected and what kind of new expenditures could have been added. In our case fiscal policy could have been used to boost demand for non-traded goods, thus minimizing expenditures on imports (Brownbridge&Canagarajah, 2009). Another thing that could be done through fiscal policy is providing labor intensive public works to support those who have become unemployed. Though, it is easy said than done due to the administrative capacity constraints. Turning to monetary policy, we need to emphasize that there has been done a lot in regards to monetary policy. The monetary policies are aimed at keeping the low inflation rates. Changes in the interest rate have become the main short-term policy measure used to influence the macro economy. Policy intervention is a key thing to affect macroeconomic stabilization. In order to shrink the recessionary gap, we can influence on the output, affecting on one of the components of GDP:  $GDP = C + I + G + X - M$ .

## References

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