You decide activity

Business

The economy is losing a lot both in economic development and financial stability (Taylor, 2007). This has been as a result of the looming economic recession in the country caused by a number of factors like inflation and currency devaluation. The result has been cyclical down turns in the economic aspects of employment and price escalations. In view of the existing situation therefore, measures to correct the situation have to be undertaken. Adoption of the relevant monetary and fiscal policies will help a great deal in correcting the situation.

To begin with, the Federal Reserve Bank can apply monetary policies to effectively deal with inflation (Carbaugh, 2011). This would be effectively done by increasing lending rates to commercial banks. This will in turn serve to reduce the money supply in the public. Once people have money, they can invest moderately and in addition create job opportunities. In addition, the governments should also sell treasury bills in order to decrease money supply in the economy. Another very effective monetary policy is use of the credit multiplier (Taylor, 2007). When the reserve ratio is increased, there will be less availability of money for credit hence the supply of money will be under control.

Adjusting rates of interest is of great significance in controlling an increase in the gross domestic product of the economy. Inflation significantly devalues a country’s currency because goods will be highly priced. The problem of inflation can be avoided by stabilizing the dollar. Taxation is also an alternative approach to controlling inflation (Carbaugh, 2011). If the money supply is very high in the economy, taxation should be increased to control the supply of money in the market. Increased market operation is another that will control the supply of money hence assisting the country regain an economic balance (Taylor, 2007).

At times controlled economic recessions are good as they cure the problem of inflation. One measure that would help completely deal with the current economic problem would be to stimulate the economy especially through lower tax rates. Producers will be motivated to produce more and as a result restore the economy. In addition, the government should try to increase its public expenditure without at first considering the budget deficit. Commercial banks should be motivated to create more funds for credit.

References

Carbaugh, R. J. (2011). International economics. Mason, OH: South-Western Cengage Learning.

Taylor, J. B. (2007). Economics. Boston, Mass: Houghton Mifflin.