The economics of the government assignment

The Economics of the Government With regards to macro-economics, the government has four major objectives: Low unemployment, price stability, economic growth that is both and strong and sustainable, and a solid equilibrium. These objectives are evident across recent economically successful nations. We will look into how these objectives affect the economy as a whole. We will also look at limitations that arise when governments attempt to simultaneously achieve in these objectives. How do these objectives of Macro-economic policy affect the economy? Low Unemployment:

High employment levels of a county are a general indicator of how well they are off when it comes to economic success. If there are fewer people with jobs, then they have less disposable income to spend on investments. Economists call unemployment a lagging indicator of the economy, as the economy usually improves before the unemployment rate starts to rise again. However, unemployment causes a sort of ripple effect across the economy (Hudson, 2013) price Stability: The phenomenon known as inflation is generally regarded as a gradual and sustained rise of the average level of prices.

It is measured on an annual rate by the Retail Price Index. Governments will tend to try to keep the inflation rate percentage low. A popular methodology to controlling inflation is interest rates. Like inflation, interest rates also affect the RIP directly. Inflation has been known to heavily affect approval rates of presidency and other government figureheads, as well as affect the outcomes of elections. Indeed, the general public has a great distaste for inflation too. A look at public opinion polls reveals that inflation at times can be viewed as the most important national problem (Sheller, 1996).

Strong and Sustained Economic Growth: Gross Domestic Product (GAP) is the general measure of economic growth. Growth changes are marked quarterly, as a comparison to the past change and as an annual percentage as whole. Statistics that are marked as ‘ Real’ mean that the effect of inflation has been nullified from the equation of growth. The value of goods and services produced by an economy is, as always, affected primarily by two factors – supply side factors, and demand side factors (Petting, 2011). Solid Equilibrium: This records all streams of finance that enter and exit a country and its economy.

The record is split into the Current Account and the Capital Account. Arguably the more important of the novo is the Current Account. This is because it records how well a particular country is faring in terms of its imports versus exports. A solid equilibrium provides a stable environment for the both the buyer and seller – supply and demand side. The Most Crucial Objective A stable equilibrium used to be an important objective for a government to achieve; in the sass, it was frowned upon if an economic deficit plagued any particular nation.

However, as time went on and currencies, particular the litigation of the pound, were introduced and shook up the whole economic scene. Massive capital flows globally reset the view on surpluses and deficits, to point of a carefree attitude to deficits that ran rampant in the ass. Post World War 2, unemployment was a huge problem – so to governments, particularly of the socialist structure, encouraged a full employment platter that was served for the next thirty years by members of politics.

In the modern day world, unemployment has become less of a large figure than at times in the previous century, and less prominent on government's minds though it is largely desired from most systems of government, regardless). By contrast, inflation has always been an issue across the years of the evolving economic sphere. Living standards will, by and large, suffer on a large scale when a high inflation bubble exists. The same is applicable to growth, except an absence of growth will cause living standards to come to a standstill.

Governments use interest rates to hinder the threat of inflation, and are naturally always attempting to enlarge their economic stance compared to other ' rivals'. Recent Government Objectives Being Realized Overall, governments have seen a gradual climb in all their objectives, excusing a rising and falling economy over the 20th century. Low unemployment, inflation and growth have all been successfully tamed. Aggregate supply and demand (that is, Australia's equilibrium level), however, will always have a weight placed upon it in that there are many people (in any country, for that matter) that purchase goods from other countries.

In Australia, equilibrium has not been too much of a problem in recent years. Due to a push for global capital and economic equilibrium, particularly in moment of wages, Australians are urged to simply go with the flow with regards to this shift in objective. (Merles, 2014) Conflicting Objectives That Create Dilemmas for Governments Facing the task rationally, it is actually incredibly difficult – if not impossible – to house all four primary governmental economic objectives under the same roof of success.

Some examples of where certain objectives don't necessarily match with one another include, but are not necessarily limited to: Strong growth and Inflation Economies that have a strong growth can sometimes effectively choke their apply, creating a demand so high that prices rise into an uneven and unstable supply and demand curve. One would think that applying an interest rate would control this problem – however, not so; pressing an interest rate would limit growth and thus the two objectives cancel each other out. Strong growth and Strong Equilibrium When an economy grows effectively, consumers tend to purchase more goods.

This creates a growing instability of equilibrium, which creates more problems than it solves solutions. Low unemployment and low inflation A government attempting to maintain both of these at the same time will usually fail due to the rise in prices from unemployment that push wages higher, also. Environmental Conflicts Rather self-explanatory – a general rush and speed up of the production of goods and services can be detrimental to the environment, providing whole new levels to economics – legal matters and ethics.

Reform Priorities to Secure Increased Living Standards for Australia Reform Priority #1: Infrastructure Infrastructure as a whole is a great prospect, as it entails all government building expenses. An aspect that could deem promising is the building of updated, high-speed railways, which has a potential speed up transport of goods and give Australia a stronger economic foothold. Reform Priority #2: Capital Markets Provides an important alternative source of long-term finance for long-term productive investments.

This helps in diffusing stresses on the banking system by matching long-term investments with long-term capital. (Capital Markets Authority, 2014) Reform Priority #3: Savings Currently, Australia's long-term savings' system is notorious for being manipulated with past government bodies. However, this policy can be an excellent when realized at its fullest potential. Infrastructure is an important part of any country, in more ways than one; it helps plenty more spheres than simply the economic sector – but most importantly to us, it boosts everybody's standard of living.

Infrastructure comprises a vast majority of government buildings and services, such as railways, support centers and general safety measures. Australia is currently undergoing a deficit in terms of its infrastructure. In order for Australia to become an intelligent economy on the world stage, this deficit must be acknowledged and dealt with by proportioning infrastructure velveteen and implementation. (Diagram describing situation for Infrastructure overleaf) Infrastructure has been identified as a potential priority that relies more on supply than demand, but both matter, of course.

Infrastructure is all about supplying the people with just that – infrastructure. General government support, such as the aforementioned train networks, improves standard of living for essentially everybody. There's one problem you might be wondering about -?? where does all the money come from for this lengthy and expensive endeavourer? The answer is not primarily in the government alone – but in riveter infrastructure firms. Pooling the efforts of multiple firms in a large- scale project as this can allow all parties to benefit through cooperation.

Firms share a small fortune and dividends for contribution to construction of these important faculties of modern day civilization. In the meantime, the government can use the majority of their finances to fund other projects and issues that press them daily. This stratagem for building a sustainable economy ties in with the two other priority candidates that have been presented today. Reform priority Capital Markets Capital Markets are an essential tool to help support the great plan of infrastructure in Australia.

Another supply dependent priority candidate, this really brings support to infrastructural ideals, according to the Capital Markets Authority; " Provides equity capital and infrastructure development capital that has strong socio-economic benefits – roads, water and sewer systems, housing, energy, telecommunications, public transport… " (Capital coking at the Aggregate Supply and Demand Diagram (Reform Priority 1), we can determine that Capital Markets shouldn't fully take on an entity of its won, but rather buffs up Infrastructure as a priority itself.

This isn't to say that Capital Markets can't stand on its own as a priority itself, but that it works more flexibly by going hand in hand with others. That being said, Capital Markets have a large influence on many aspects of economic life, and it is an exciting prospect; the ability to improve socio-economic conditions for the people and to ultimately improve standard of living thrives on the same ideals as Reform Priority #1. Capital Markets also

“ provides an important alternative source of long-term finance for long-term productive investments.

This helps in diffusing stresses on the banking system by matching long-term investments With long-term capital. ” (Capital Markets Authority, 2014) Net household savings have become an increasingly problematic enemy to itself. Mandatory superannuation has increased growth of household savings as disposable income, but at the same time, there is a large household debt that floats at almost every door. This nullifies the benefit of superannuation as a retirement fund, which is decreasing people’s standard of living when they cease to earn an income. This can force people to sell assets in order to ropey support themselves.

It must be noted that savings as a reform priority is identified as a “ demand” priority. The aggregate supply and demand diagram will be displayed again for ease of viewing. Unlike the two previous reform priorities, savings is, in its current state, a detrimental device for Australia’s economy. As previously mentioned, savings don’t even matter, especially with a large debt on most households. Of course, debt varies from person to person, household to household – but as a general policy, it does nothing to truly aid the living standards of the people. This policy needs to be reviewed again and have some adjustments made to its make-up.

It begs the question, however -?? what if it is really the people’s fault that they have plunged themselves into debt? Or is it the government for bringing such a heavy debt blow on everyday necessities to the common individual? Perhaps interest rates are too heavy on the wallet of individuals when receiving loans. Nevertheless, this reform priority needs a closer inspection before it can be taken into account when staging Australia as a force in the economic game. Conclusion Overall, these three macro-economic policies are alike, but different – with he third largely contrasting the other two.