

Compensate price essay



**ASSIGN
BUSTER**

Income is argued to be able to fully compensate price level changes meaning that if the price level is doubled, then the current value of the national output will be doubled as well.

Actually, direct interdependency is observed in the case. Moreover, economists will observe that income doubles as well. Therefore, the assertion that income compensates price level changes is valid and sound. Price level changes don't affect what recipients can buy with their incomes.

Official rates report low price level increase in the United States of America, less than 3-4%. Economists view such tendency is positive because it ensures economic and financial stability, and nation is ware that they are able to do with their incomes whatever they like. The key question is whether the APE “ aggregate planned expenditures” are directly affected by price level changes. Practical research and proper calculations prove that price level changes don't directly affect the level of aggregate planned expenditures.

If price level changes affect aggregate planned expenditures in future, macroeconomic coordination process should adapt to new changes.

Nevertheless, analysts argue that it would negatively affect country's economy because macroeconomic coordination process may become more efficient and may result in reduced employment and interest rate and output changes. In such case, economists will expect the price to restore equality among ASF, GDP and APE. Furthermore, households are the only consumers.

It means that the terms ' consume' may be applied only to household sector.

The concept of saving is also important for coordination process. Saving

suggests that all disposable income is stored instead of being used for buying particular goods and services. There is no restriction or limitation for households when they are willing to buy currently-produced services and goods. For purchases households can use either accumulated savings or credits. The situation in the USA is the following – households use huge amounts of credits, but official reports admit that the number of savings exceeds the number of credits.

And it is a positive tendency. Interestingly, buying bonds or stocks is the act of saving, not the act of investing. Investment is defined as the process of buying current output. Financial investments are purchasing stocks and bonds, they are not simple investments. Level of consumption is argued to display no direct link to the level of interest rate changes. Moreover, household sector is not directly affected by the level of interest rate changes.

The fluctuations in the level of interest rate are modest and slow, and abrupt changes may face sharp economic response. We know that household sector is the only saving and consuming sector. Therefore, they use credits for consumptions, and their prosperity may go down in case of changes in the level of interest rates. Households depend on interest rates as they use credits for purchasing goods and services. If interest rates increase, households will save more, and if interest rates go down, households will rely more on credits. Direct interdependence is observed.

Ashby argues that when households use credits, they are very likely to reduce consumption. Investments are very important for economic

development of every country as they increase average inventories and replaced old equipment. Actually, rise in business saving results in increased investments. Rise interests rates reduce the amount of investments. Ashby argues that government plays important role in country's development and economic policy.

Today, government purchases capital goods to be used for defense, fire protection, policy protection and education. Foreign trade sector is relatively small in the USA if to compare with domestic policy sector. For example, exports and exports significantly depend on exchange rates, and they are too sensitive to such trade barriers as exchange controls, quotas and tariffs. However, price level changes may negatively affect interest rate movements and aggregate planned expenditures.