

# The great recession of 2008 research paper sample

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## **Demand-side Policies'**

### Executive Summary

Initially a brief background of the devastating financial downfall of 2008 will be provided. This paper will then investigate the demand side polices before and after the recession. In the end some policy recommendations will be provided in order to improve the current financial situation and eradicate the economic cavities still left after the economic depression of 2008.

## **Introduction**

The worldwide depression of 2008–09 was unexpected, stern, and gradual. During the time former to September 2008, the housing and financial segments in the United States and numerous European nations faced gradual negative consequences. Throughout this phase, there was extremely slight spillover to other segments and nations. ' However, in the start of September, the crunch in these few segments and states spread

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unexpectedly to embrace practically all segments and all countries. In the fourth quarter of 2008, real-world GDP contracted by 6.5 percent (annualized), and it fell a further 7.9 percent in the subsequent quarter, among the most austere deteriorations since the end of World War II' (IMF Economic Review). The major downfall in the output was not the only consequences. There were other serious consequences, like adverse effect on the aggregate demand in the economy. The concerned economist all over the world paid extreme attention towards the role that the demand effecting policies played during and after the recession. They believed that aggregate demand plays a vital role in an economic development and can speed up the process of a nation recovering from the aftereffects of the depression. Hence, its imperative to critically analyze the policies directed at altering the aggregate in the economy.

## **Policy Responses**

The worldwide recession of 2008 resulted in various to monetary and fiscal policy reactions by central banks and government establishments that were frequently eccentric in extent and range.' A report of expansionary actions used during the recession suggests that overall, the policies were possibly effective in shaping the outlook for a retrieval, as predictors elevated their expectations of inflation and GDP development after the policies' accomplishment' (Carvalho). From this viewpoint, the strategies stirred economic commotions and averted deflationary burdens during the financial crisis'

## **Before Recession**

The anxiety with the labor market has been developing a bit before the financial crisis, signifying that the momentary aggregate demand administration strategies that are normally used in the economic downturns have flopped in the past to confidently covenant with the redundancy problem and the substantial fundamental operational problems that have arose in the US economy. Whereas the fiscal thrust throughout the financial crisis has correspondingly assisted to set a base on aggregate demand, it has not created the dynamic job revival that is anticipated or wanted. ' Some economists have properly claimed that the fiscal reaction was too small (CEPR 2009), but there are good reasons to believe that " more of the same" is not the solution to unemployment' (Tcherneva). The appropriate demand policies were failing and creating more economic problems rather than rectifying them.

## **After Recession**

The demand-side policies are implemented throughout an economic recession to boost the aggregate demand. These comprise of both fiscal and monetary incentives to instill the aggregate demand in the economy. Policies adopted by the government using the fiscal tools were to enhance the government spending and lowering the taxes. The later also encompassed the facilities of refunds and loss carry forwarders for industries. These were focused on increasing the demand both direct and indirect in the economy. Therefore, the US government also responded to the situation of the downturn in 2008 and augmented its government spending. This government spending is to be joined with increases in household

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consumption and pulling up the aggregate demand in the economy. Both will result in increasing demand of goods and services consumed in the economy, This will encourage the producers to increase their production level that will be done by hiring more workers. Hence, the output of the economy will rise as well as the unemployment will fall, ensuring economic development and fast recovery from the recession. ' The monetary stimulus was also broad and led to decline of federal fund rates to about zero. In addition, the long-term rates were also regulated as well as massive asset increases were undertaken by the central bank' (Researchomatic). Though, the research has shown that these incentives adopted by the government did not result in reducing the prevalent unemployment rates that alter on real output growth rather than a simulated incentives.

## **Policy Analyses**

In simple words, although aggregate demand supervision fills the reserves of families, businesses, and countries, their prospects of the future may not advance constant enough to persuade them to provide these newly attained capital into occupation producing events. In deep downturns in specific, the desire for liquidity may not be satisfied by the provision of additional financial assets from the government expenditure. ' As Keynes had claimed, this is because " money is a bottomless sink of purchasing power there is no value for it at which demand [for it] is deterred into a demand for other things" (Carvalho). To further clarify it, whenever the liquidity inclination is elevated, and it is therefore uncertain how huge an insertion through aggregate demand is desired to ensure that the private segment stops saving net financial assets and commence energetic consumption and

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investment. Nonetheless even while financial commotion is resilient, companies find it unsuccessful to employ the labors that are prepared, eager, and capable to work. The liquidity inclination of particular private representatives directs that it is more beneficial to devote their savings in cash form than in manufacturing. Thus it is clear that appropriate aggregate demand management policies are essential in order to recover the economy from the economic slum and avoid other economic problems.

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