

Macroeconomics written assignment

[Economics](#), [Macroeconomics](#)



Many are saying that the U. S. economy is presently on the initial stage of experiencing economic recession due to the instability that is happening on major industries in the market (Iht. com, 2007). With the pressing condition of the U. S. economy, it is the role and responsibility of the federal government to provide the necessary solution to address the impending economic recession in the United States. A balance in providing policies, monetary and fiscal policy, must be secured by the federal government in order to have a sustainable solution for the present instability of the U. S. economy.

The instability of the present economy is being attributed to the decline of household's disposable income in the market during the first quarter of 2006. Many economists said that the deterioration of household's disposable income was caused by the lowering of wages of working class by the end of 2005. The GDP growth rate of the United States was down by 0. 6 percent, from 5. 2 percent to 4. 6 percent, after the economic instability starts affecting the domestic market.

Due to this limited disposable income of households or consumers in the market, the domestic consumption declined dramatically causing tremendous amount of losses on various industries in the market. Like for instance, the housing industry has been suffering from financial difficulties as the demand of consumers for housing market hit their financial stability hard. In this regard, it would be better to focus the policies of the federal government on addressing the limited disposable income of the households and the low wage rate of the working class in the market.

Economic Policies for U. S. Economy Recovery

One of the possible monetary policies that the federal government could implement would be the lowering of interest rates of various financial securities such as mortgages for industries in the market to provide financial support. This lowering of interest rate would give these industries enough room to stabilize their financial condition and would serve as the stepping stone of their fast recovery.

The low demand of the consumers in the market creates enough pressure for the sales and profitability of various industries to perform badly leading for financial problems of companies in the domestic market. With the lowering of the interest rate, companies can now borrow much money that they need in order to restore their accounts and cover the losses that they will incur by continuing their operation. The only side effect of this policy would be a possible high inflation rate a few years after increasing the interest rate in the market since there will be an increase in the money supply in the economy.

As for the fiscal policy of the government, it would be better if they would pass a law that would increase the minimum wage rate of every worker in the United States in order to improve the disposable income of every household in the United States. With this, the volume of consumption of consumers will improve thereby creating an improvement on the sales and profitability of various industries in the market.

One possible side effect of this strategy would be higher unemployment rate and inflation rate as various industries either layoff some of their workers or increase the prices of their products just to give room for the increase in the minimum wage rate that the federal government will impose. In order to counteract this possible action of the private class, the increase in the wage rate of the workers will be accompanied by the provision of government subsidy for those companies that will abide the said policy and will not layoff workers or increase the prices of their products in the market. With this, the government can prevent the worsening of the inflation rate and unemployment rate in the market.

In this regard, the above mentioned alternatives will be the most suitable solutions on today's economic instability. The potential side effects of these policies can now be minimized through the aid of the countermeasures that is included on the policy itself.

References

Iht. com (2007). Is the U. S. Economy in Recession? Retrieved May 1, 2008, from <http://www. iht. com/articles/2007/12/16/opinion/edeconomy. php>