# Economic analyses – netherlands

Economics

Netherlands National Economy: 2008-2012 Compulsory Assignment April 24 2012 Spur: MM 2nd Sem. Subject: Descriptive Economics Table of contents _

 Introduction _ This report is written for the purpose of the completion of a compulsory assignment that was allotted to the second semester students of the Marketing and Management spur. The theory and data that is described herein is related to the subject of descriptive of economics which is a branch of macroeconomic studies.

The specifics of the assignment are, according to my understanding, to find a national economy of our choice; analyze the nation’s recent economic growth rate known as GDP (Gross Domestic Product); analyze the inflation rate; analyze the unemployment rate; present visual data to support the written information; explain in advance what GDP, inflation and unemployment is from the definitive perspective. The national economy that

I have chosen to analyze is that of the Netherlands. The reason that I have specifically chosen this economy is twofold.

Firstly, the Dutch economy it is one of many economies within the European Union that is having difficulties recovering from the global financial crisis of 2008/9 and the current crisis that is further evolving in the European Union, more specific insight to this developing may prove beneficial in the post-graduationperiod when exploring possible job opportunities. Secondly, the NGO Spark that is channeling capital into International Business College Mitrovica is located in Amsterdam, Netherlands; therefore it is interesting to know what economicenvironmentthe organization is surrounded by. Dutch Economy

The Netherlands have a long history of trading with other countries in the world and have throughout time become very dependent on trade. The Dutch economy is based on a free market economy system with the government's main purpose being to set regulations and taxations in the economy. Furthermore, the Netherlands are part of the European Union and have closely bound their economy to the EU by joining the European Monetary Union, that is to say the euro. The Dutch are advocators of free international trade and the reduction and removal of tariffs since it is obvious that they would benefit from more free trade.

Past expansions of the Dutch economy were mainly due to an emphasis being put on increasing foreign trade, consumer spending and investment. When compare to other economies the Netherlands rank as the fifth largest economy in Europe with relatively stable industrial relations. When it comes to industrial activities, Netherlands are primarily occupied withfoodprocessing. The country is highly technologically advanced when it comes to agricultural development and uses a relatively small labor force to regulate agricultural cultivation. Currently it holds an estimated population of 17 million people.

Average unemployment rate in the country is 4. 77 percent; average inflation rate is 2. 08 percent; average GDP growth rate is 0. 61 percent per quarter. Gross Domestic Product (GDP) GDP is the sum in market value of all goods and services (products) that a country has produced in a given p of time, i. e. a year or a quarter of a year multiplied by four. It is a statistical measurement expressed in monetary value. In order to get a comprehensive value of goods and services the prices of those products are added together to get the GDP value.

This is only relative to final products and not intermediates such as components that are used to produce the final good or service with the exception of those products that are produced and then stored in inventory; those have momentary or short GDP value. The term “ all goods and services” applies only to the country’s output that is legitimate and legal excluding all products derived from illegal activity and those products that are produced and consumed in a household, i. e. homegrown vegetables used only for personal consumption.

Other products that are not included into the GDP are those that are not newly produced and sold, this applies to used goods such as cars or machinery. GDP is not concerned with nationality, e. g. if an individual of American nationality opens a company in the Netherlands producing a particular product and sells it in the Netherlands, that is also counted into

Netherlands GDP. There is a clear line between GDP and a GDP growth rate. The GDP growth rate is expressed as a percentage and it uses the Real GDP (GDP or Nominal GDP minus inflation or increases in price).

It shows by what rate (percentage) the economy as a whole has expanded or contracted from one period to another period (Mankiw 2008). GDP Netherlands: January 2008 – January 2012 When analyzing the Dutch economy at the peak of the global financial crisis (2009) it is apparent that the Netherlands were affected very deeply (illustrated in the graph above and on the next page). The economy was in a heavy recessive state meaning that the national economy was experiencing a contraction in economic growth or simply put, the national economy was shrinking.

The recession or negative growth started in 2008 for the Netherlands dropping from a positive economic growth rate of 0. 5 percent in the first quarter to -0. 4 percent in the second quarter of the year. This recession was by far the worse that the Dutch economy has ever experienced reaching a record low of -2. 2 percent at the end of the first quarter in 2009. The recession was in effect up to mid-2009 with the economy starting to experience positive growth again in the third quarter (0. 8 percent) of the same year.

From that point Netherlands GDP was subject to fluctuation in growth rate, however staying well on the positive side of growth all the way up to mid-2011 where the economy experienced another plunge and fell to -0. 4 and -0. 6 percent in the third and fourth quarter of the year. The reasons for the recession in 2008 and 2009 are not of an ambiguous nature. The world as a whole had entered a recession primarily driven by the financial disaster created by the banks in the United States. People all over the world had stopped spendingmoneywhich led to companies reducing trade and production.

These developments had a negative impact on the Dutch economy which receives a large portion of its GDP from trading with other national economies. In addition to the negative turn in trade during the recession the Netherlands also experienced a reduction in traffic in its harbors which serve as a center for European transport and contraction to internal spending form companies and households. When examining the more recent recession beginning in 2011 a number of factors were uncovered in relation to the cause of contraction in economic growth.

Again the external environment has had a tremendous effect on the Dutch economy this time sparked by the financial crisis that has been unfolding in the European Union. Starting with ongoing financial and economic breakdown of Greece and more recently Spain and Ireland, the Netherlands have been greatly affected by those countries inability to pay off their debts. This has led to a reduction in trade again for the Dutch primarily because the risk that is now associated with the European Union and its lack in competency in regulating the financial crisis.

Further on, internal demand and expenditure has again decreased from households and companies. As to why households have stop spending money there is no single answer. One reason can be the rise of unemployment which will be discussed later. Another reason may be people’s uncertainty as to the future value of their currency because of the financial crisis making them unwilling to spend and more eager to save thus withdrawing their money from the circular flow of the economy.

In regards to why companies have stopped spending in the Netherlands it can be explained by emphasizing the interconnectedness between households and companies in a nation’s economy. Figure 1 illustrates the relationship between households and companies. If there is austerity in spending form households there is a negative effect on the companies’ willingness to produce goods and services, thus aggregate supply is reduced which also reduces the companies’ expenditure on factors for production.

Lastly, the Dutch government has also cut back its spending from 2011 and made adjustments to the national budget which means that there was reduction of injections into the economy. Overall it can be deducted that the four primary factors which drive the GDP growth rate (investment, government expenditure, consumption, exports) have taken a beating due to the ongoing financial crisis and the physiological effect that it had on Dutch citizens causing the negative impact on the circular flow between households and firms in the national economy (Kaidusch, P. & Ott, C. 2012).

Unemployment Rate When speaking about the unemployment rate of a nation it is important to understand how such a rate is derived. There are two essential components needed to calculate the unemployment rate, the first being the number of people that comprise the labor force. Labor force is the number of those people in the country that are employed, either in someone else’s business or their own business, plus the number of those people that are unemployed excluding fulltime students, retirees, homemakers and those incapable of working due to disability orhealthissues.

The labor force is divided by the number of those unemployed and then converted into percentage equaling the unemployment rate (Mankiw 2008). Netherlands Unemployment Rate: January 2008 – January 2012 When looking above at unemployment chart for the Netherlands covering the same period as the GDP it appears that following the start of the recession in 2008 the unemployment rate went upwards (negative increase) starting to slowly rise in the second half of 2008 and shooting up from 3. 6 percent in January 2009 up to 4. in the first quarter of the same year. If we refer back to the GDP chart we can see that exactly at this point of time the Dutch economy experienced its first serious plunge in the GDP rate going from 0 percent down to 1. 1 percent. When further following the trend of the unemployment rate it is relatively easy to spot that it is closely related to the GDP rate in 2009. Basically, with the contraction in the GDP it is the natural order of things that unemployment rises since as explained before companies are spending less for factors of production, i. . less workers are needed. However, if we compare the general unemployment rates for the entire euro area (see chart on the next page) we can see that the Netherlands are actually a lot better off than a large portion of the other European countries that share the same currency with general unemployment rate being above 7. 2 percent since 2008 and reaching 10. 4 percent at the end of 2011. Through this we can deduct that the rises in the unemployment rate in the Dutch economy have been of slighter significance if compared on a larger scale.

The question maybe posted as to why the Netherlands employment rate suffered much less than other euro area countries. There are a number of answers but only a few deemed essential will be stated in this report. First, when the financial crisis reached the Dutch economy in 2008 a lot of companies collected and kept their workforce fearing a future shortage; however this was only possible at the price of productivity due to the law of diminishing returns on factors of production. This means that the companies were overstaffed leading to a lot of workers being less productive yet still employed.

Second, government expenditure was relatively large with high employment in the public sector up to 2011, when the Dutch austerity measure came into effect. Third, in 2009 the government took certain measures to extenuate the damage of the financial crisis on the unemployment rate by introducing relief programs and subsidies. Lastly, what contributed to the unemployment rate stabilizing sooner than expected in the first recession is that there was and still is a rising number of self-employed individuals in professional services, arts, and creative industries.

These people adjusted their prices to the fall in demand easier than large scale businesses and managed to stay in business proving how important SME (Small-medium enterprises) are to the economy. However, now it can be observed that the unemployment rate is rising again due to a new recession that started in 2011. Companies in the Netherlands are adjusting their workforce to the demand in the economy leading to higher unemployment supporting the economic theory all factors of production are variable in the long-run.

Government expenditure has decreased cutting jobs in the public sector also causing higher unemployment. It would appear that exactly those things that have contributed to the Dutch economy staying under the general euro area unemployment rate have been cut and reduced in the pursuit of creating a more efficient and effective economy (Janssen 2011). Inflation Rate _ Inflation in macroeconomic terms is the general rise in price of good and services in a given economy and is closely related to the value of money.

Inflation occurs when there is an access of money being pumped into the economy usually causing a rise in demand and subsequently a rise in price. The inflation rate in a country is the percentage of monetary value by which prices have risen in general. It is measured from one year to the next. Inflation causes the purchasing power of money to decrease meaning that that consumers can purchase less goods and services with the same particular sum of money then before inflation has happened, in simple terms inflation causes money to lose it value (Mankiw 2008).

The main reason as to why inflation is negative for the economy is because it can have the effect of frightening people from spending money and herd their saving in banks and even worse out of banks causing a complete withdraw of their capital from the economy. Netherlands Inflation Rates: January 2008 – January 2012 When examining the inflation chart for the Netherlands for the period between 2008 to the start of 2012 it can be observed that the inflation rate decreased just about when the global recession hit the Dutch economy.

Throughout the recessive period the inflation rate continued to decrease with very little fluctuation up to the point in 2009 when the economy was recovering from the recession. From that point there was a steady rise again in the inflation rate until the new recession took place in mid-2011 with a declining trend passing over into 2012. Reasons as to why the Netherlands were experiencing a decrease in the inflation rate can be explained as follows. A very base explanation is that there was less money circulating in the Dutch economy which brought about the increase of value in the available oney supply, however there is more to the story. Since the Netherlands are part of the European Union it is not theresponsibilityof the Dutch Central Bank to regulate policies regarding inflation but that of The European Central Bank. Following the global meltdown of the financial system on a global scale in 2008, the European Central Bank under the presidency of Jean-Claude Trichet did not follow the action of the Federal Reserve in the United States and the Bank of England in the UK by cutting its interest rates which have a definitive impact on inflation.

What happens is that when interest rates are cut people tend to borrow more money which results in more money circulating in the economy. " Inflation is an autonomous occurrence that is impacted by money supply in an economy. Central governments use the interest rate to control money supply and, consequently, the inflation rate. When interest rates are high, it becomes more expensive to borrow money and savings become attractive. When interest rates are low, banks are able to lend more, resulting in an increased supply of money. –Economy Watch 2010 This is a viable explanation as to why Inflation rates started to decrease during the recession in the Netherlands who followed a very similar inflation rate trend as all the countries in the euro area during that period, as illustrated in the chart below. As the Dutch government took measures to reduce the damage to the unemployment rate by giving subsidies and relief programs the money supply in the economy started going up again, people started spending more and the inflation rate began to steadily rise again as shown on the chart for the Netherlands inflation rate, see previous page.

By following this logic it is easy to deduce why inflation rates are now rising again, due to the austerity program that the government brought into effect in 2011 cuts have been made to the spending budget once omre reducing the money supply in the economy. The Relation between Unemployment and Inflation Up to this point in the report we have observed that there is a connection between GDP and the unemployment rate. When GDP is down overall productivity and demand is down in the economy which causes less demand for work force that is a direct factor of production.

Thus we could follow what was happening in the Dutch economy when the recession (negative GDP for two quarters of a year) took effect and why unemployment did rise. Further on, the relation between unemployment and inflation will be examined. In the long-run it can be observed that unemployment and inflation are not connected since they have different determents in the long-run. For the unemployment rate some long-run determinants areminimum wagelaws, power of labor unions, and how effective job searching is. The main factor that determines the inflation rate in the long-run is the growth in the money supply (Mankiw 2008).

However, in the short-run the two are relevant to each other and to policy makers in the government. In the short-run there is an economic trade-off between inflation and unemployment putting governments in difficult positions. Do they pump subsidies and other monetary aid into the economy and through this increase the aggregate demand in the economy subsequently increasing inflation and decreasing the unemployment rate, or, do they make cuts in spending contracting aggregate demand and thus contribute to the increase to the unemployment rate yet keeping the inflation rate down.

The best way to illustrate this trade of is through the Philips curve shown below. A lot could be said on the topic of the Philips curve and its application in macroeconomic theory on the relationship between unemployment and inflation and for this it is recommended that the works of George Akerlof and the research done by Samuelson and Solow should be further referred to. Getting back to the Netherlands it is obvious that Dutch policy makers were faced with exactly this dilemma even more so during the recession of 2008 and 2009.

As the government subsidized and lend aid in the economy the unemployment rate seemed to stay at a reasonable unemployment level further aided by the European Central Bank’s inaction in decreasing the interest rates as mentioned earlier in the report. However, as the government starting making cuts and companies readjusted their work force inflation rates contracted unemployment rates rose for the year of 2011.

Conclusion When it comes to the GDP growth of the Netherlands it can be concluded that it’s going to take some extensive time for the economy to recover from the damage done by the financial crisis. Of course there is much more that could have been said on the topic of GDP however those issues will be left as the topic of another report of a deeper analytical nature.

As to the unemployment rates in the Netherlands even though they have been relatively low in comparison to other countries they are on the rise and forecasts by the Dutch treasury agency have been negative describing that the Dutch government has a hefty challenge ahead of itself in the next couple of years stabilizing the lasting effects of the recession, past and present. In regards to the inflation rates they are currently on the decline and may very well stay that way for the upcoming year since another shallow recession is forecasted for the first two quarters of 2012.

In the course of this report it was made evident to me as to how interrelated GDP, unemployment, and inflation are in reality. Furthermore, now there is a clear understanding of what kind of difficult issues policymakers are faced with in the process of regulating this phenomenon called economy. Bibliography 1. Business Dictionary. com (2012), Law of diminishing returns, available at: http://www. businessdictionary. com/definition/law-of-diminishing-returns. html (accessed on April 29, 2012) 2.

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