Economics case study examples

[Finance](), [Investment]()

Monetary policies are interference in the economy by the central bank of a country with an aim of influencing economic activities. Intervention by the central banks can be through interest rates, regulation of the banks and open market operations. These actions could be aimed at reducing or increasing money supply in the economy (Gitman, 2009).

Fiscal policy is manipulation of government expenditure to achieve certain objectives. Fiscal policies include public adjustment of taxes, reducing or increasing government expenditure. Preparation of deficit or surplus budgets is fiscal policies that can be implemented to achieve certain objectives (Zoli, 2005).

Open market operations by the Federal Reserve involve purchase and sale of government bonds. When the bonds are sold, money supply in the economy reduces. Reduction in money supply has the effect of reducing increasing interest rates. When the bonds are bought, money supply in the economy increases, interest rates decrease and investment in the economy increase due to reduced costs of borrowing. This acts to stimulate economic growth because investment leads to an increase in total output in the economy (Langdana, 2009).

Reserve requirements are the percentage of the total deposits that depository institutions are required to hold. The federal government requires banks to hold a certain portion of its total deposits. Reserve rations are prepared by the Federal Reserve to determine the percentages that should be held. When the reserve ratio is increased, it means that the bank has the ability to lend less money to the economy. Therefore, the money supply to the economy reduces. When the reserve requirements are low, more money can be lent to the economy. Money soppy increases leading to a decline in interest rates. People invest due to available and cheap funds.

Discount rate is the interest rate charged by the Federal Reserve to the depository institutions that borrow funds from the central bank. This interest rate reflects the costs of borrowing. If this rate is low, then interest charged by the banks on loans given to the people will also be low. As a result, people will be in a position to borrow more funds. This increases money supply in the economy.

- The move is neither fiscal nor monetary policy. The government and the Federal Reserve are not involved in this case and it has no effect in money supply in the economy.
- This is a fiscal policy. Abolishing department of education is a move by the government to reduce expenditure on this sector of the economy.
- This is a fiscal policy. This is a move by government to collect more funds from the public through taxes.
- This is a fiscal policy. Provision of subsidies is an action by the government. It is meant to influence the growth of the oil industries.
- This is a fiscal policy. Laying off teachers is a move by the government to reduce government expenditure.
- The move is neither fiscal nor monetary policy. The decision does not affect economic activities in United States in any way.
- Fiscal policy. Committees are formed by the government and the decision to change taxes is part of fiscal policies adopted by the government.
- This is a monetary policy. The decision is being made by the Federal Reserve. It involves adjustments in interest rates, which is one of the

monetary policies.

- This is a monetary policy. Interest rates are regulated by the Federal Reserve. This is part of monetary policies that the Federal Reserve can adopt to influence the economy.

- This is a fiscal policy. This situation involves adjustments of taxes by the government, which is a fiscal policy to influence economic activities.

- This is a monetary policy. Sale and purchase of government securities to influence money supply in the economy is a monetary policy.

- This is a fiscal policy. Funding of businesses is a decision by the government to influence economic activities.

References.

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