Free macroeconomics article review sample

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Section A: Monetary policy

For instance, according to the article, the Bank of Japan (BoJ) is the monetary authority that is responsible for regulating the monetary provision in Japan. The article presents the economic inertia in the Japanese economy. Due to this economic inertia, the Japanese Prime Minister, Shinzo Abe, has come up with an economic plan that has three parts in order to rescue the country from the stagnant economic situation. This move to trigger a growth in the Japanese has also been initiated by the Bank of Japan. The Bank of Japan has adopted expanding its plan of “ quantitative easing” in increasing the financial base of the Japanese government. If this plan is successful, it will increase the financial base of Japan largely. This increase in the financial base was estimated to be about ¥80 trillion, ($712 billion) every year. During that year, the financial base had been about 60 - 70 Japanese yen. To achieve this the governor of the Bank of Japan, Haruhiko Kuroda has spelt out his plan of increasing the value of the bonds of the Japanese government by 2% every year. This move had an aim of reducing the deflation rate (A Bigger Bazooka 2014).

The Bank and the Japanese government had increased the task on consumer products, and this resulted in the drop of the economic growth by a shocking 1. 7% in their second quarter. This drop resulted from the wavering demand from the consumers. It could also be attributed to the reducing prices of oil, which the Japanese government and the Bank of Japan had no control over. Because of all these drawbacks, Mr. Kuroda’s monetary policy plan is under criticism from all the stakeholders in the monetary section, for example, the economists. A good monetary plan should increase inflation and reduce deflation, unlike in Japan, where it decreased inflation. The monetary plan that the Bank of Japan was utilizing, under the governorship of Mr. Kuroda, was not viable for Japan. Increasing the consumption tax lead to a low consumer demand, thus, leading to a low economic growth. On 31st October 2014, the bank cut the prediction for the 2014 fiscal year by half and increased the economic growth to 0. 5%. Consequently, this led to an indefinite timeframe for the achievement of the 2% inflation; the Bank further ascertains its incapability of a positive impact on the growth of the country's economy (A Bigger Bazooka 2014).

The graph below show BoJ's inflation rate. The deflation is due to the rise in the consumption tax. As the consumption tax increases, the aggregate demand decreases.

Figure 1: A graphical representation of the annual inflation rate in Japan.

Therefore, monetary policies can lead to either a reduction or an increase in the economic growth of the country depending on the viability of the policies in that economic environment. As for the case of the Japanese economic environment, the policies adopted by their monetary authority could not push the country forward economically.

Section B: Aggregate Demand and Aggregate Supply

Aggregate demand is the ability of families, business organizations, and countries to spend in purchasing goods and services or in assets. It spells out the goods and services that will be traded at any given price. Aggregate supply is the total amount of goods and services that an organization intends to retail within a specified period. Presently, many businesses and organizations do not have the necessity of investing. This is because there is an insufficient supply of consumers due to the high rate of unemployment, thus, reducing the ability of people to purchase since purchasing power is directly related to the availability of money.

According to the article, the Japanese government is going through a critical time of deflation and low economic growth. The Bank of Japan increased the taxes on the consumer consumption in a move to increase the inflation rate. This move, however, had a negative impact on the economic growth of the country. The economic growth of any given country highly depends on the consumption power of the country (A Bigger Bazooka 2014). Therefore, a country with a high consumption power is likely to experience high economic growth because there will be active cash flow within the economy.

With reference to the article, an increase in the consumer consumption tax resulted in a low consumer demand, thus, a low aggregate demand. Aggregate demand is determined by the consumer’s purchasing power. Therefore, aggregate demand is directly proportional to the purchasing power of consumers. Hence, the higher the purchasing power, the higher the aggregate demand. The increase in the consumer consumption tax results to an increase in the retail prices of the consumer products. The increase in the cost of the consumer products, on the other hand, means that the consumers have to spend more in purchasing the products. There is an increased expenditure burden to the consumers but their income remains constant. A constant income in an economy with increased consumption tax means that the consumers have to re-budget, cutting down on the less important commodities in favor of the basic ones. This re-budgeting, on the other hand, will result in some products retailing more than others do. Since consumers will avoid buying some products, their aggregate supply will reduce. In addition, since the prices of the basic commodities are high, the consumers will buy just a few products. The aggregate supply of these products will also reduce. A reduction in aggregate supply might result in some firms closing up since they will be incurring losses because their products retail market will be low. A closure of some firms will result in employee send-offs. This will lead to much lower aggregate demand in the economy because of unemployment (A Bigger Bazooka 2014).

The graph below shows the Phillips curve which shows the relationship between unemployment and inflation within the economy.

Figure 1

Figure 2

In figure 1, Y is the equilibrium point. An increase in income Y1 will result from the government raising its expenditure. The short term will experience a reduction in unemployment. There will be a rise in prices; hence, the cost of wages will rise, shifting AS to AS1, shifting the economy back to Y, but with high price levels at P2. In figure 2, NAIRU is the unemployment rate with stable inflation, and A is an equilibrium point.

Therefore, the policies adopted by the Bank of Japan pose a negative impact on the country’s economy since they affect both the aggregate demand and the aggregate supply negatively. Economic growth can only be realized in the economy if the policies are favorable. This negative impact resulting from these policies might be dangerous to the economic growth of Japan.

Therefore, unless the relevant stakeholders act fast before things get out of hand, Japan’s economic growth will be on the verge of declining.

Bibliography

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