Analyze the impact of recession and recovery on a countries public finances

Literature, Russian Literature

Recession The world economy is currently at its worst with most countries hit by the pinching global recession. However, it is of prudence to know what the term means before debating about it. Along with recession, terms such as monetary and fiscal policy are also oftenly used when analyzing national or global economy. Economists define recession as a significant downturn in activity that affects all the economic segment, the decline in activity normally last for a span which could be more than months. Effects of economic recession are usually witnessed in employment, industrial production and in real income. The technical economic indicator associated with recession is economic growth which is negative which in quarters is two consecutive when measured by a nation's GDP (Gross Domestic product) (Skousen 34-36).

Monetary policy means the changes effected in money supply and interest rates in order to contract or expand aggregate demand. During recession, the federal government reduces the interest rates and increase money supply in return. However for monetary policy to be effective the confidence that both the consumers and businesses have in it play a pivotal role. Reduced interests rate may be inconsequential response to recession if the consumers and businesses do not take advantage of the reduced interest rates and increased money supply. This would in return greatly affect the recovery of and flow of money by the federal government.

Fiscal policy means the changes made in regard to taxes and expenditure of the federal government with the main purpose of contracting or expanding aggregate demand level. In reference to recession, fiscal policy is applied when government lowers the people's taxes and in turn increases its

spending. On the other hand fiscal policy may also involve taxing more and spending less. However for this strategy to be effective it largely depends on savings and during imports. If the people save more and the businesses import more then fiscal policy counters recession contrary to the reverse. The reverse which in this case is less saving and importing activity ultimately scuttles recovery measures.

Thirdly, by the federal government increasing its spending and lowering taxes, Automatic stabilizers are activated. This means that the progressive income tax is reduced and this in turn increases aggregate demand during recession thus enabling recovery. On the other hand, aggregate demand decreases in overheated expansion. As a result, the tax and spending changes result to recession deficit and huge surplus overheated expansions. However the extent of success in the implementation of this economic strategy is greatly inclined to the amount spent by the government after reducing taxes. The more it spends to activate supply of money to the consumer, the faster the recovery of the expenditure (Skousen 63-66).

In conclusion, several measures are always put in place to counter recession and both the monetary policy and fiscal policy are just some of the measures. Each adopts different economic approach when tackling recession. It is important to know however both the two policies depend widely on markert, consumer and business response for them to be effective. Both the two policies have got their flip side two and if not implemented with caution may not yield desired results which in this case are recovery during recession. Lastly fiscal policy becomes more effective since it gives both the consumers and businesses a chance to participate in economic recovery.

Work Cited

Skousen, Mark. Economic Logic. New York: Capital Press, 2008. Print.