# Monetary and fiscal policies on recession

Literature, Russian Literature

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Recession is a phase experienced by countries as a result of changes in the business cycle of the economy. When a business cycle fails to follow as predictable trend, then it results into unfavorable conditions which are negative for a business to thrive in the economy. Study has shown that the period prior to a recession phase, many businesses experience a boom which leads to optimistic but instead, the economy slumps. During a recession phase, the GPD of a country marks negative values for two consecutive economic quarters. This leads to high rates of inflation where prices of many commodities go up. As a result, the rate of unemployment goes up reducing the purchasing power of consumers. Consecutively, money supply in the economy becomes significantly low (Navarro, 2009).

Fiscal policy is used by governments to stabilize aggregate demand and aggregate supply in the economy by influencing the government spending, borrowing and taxation. The government uses fiscal policy to change the patterns of people’s spending. According to Keynesian school, fiscal policy helps restore employment rates, demand and output where the economy is operating below capacity. Keynesian recommends two types of fiscal policies; expansionary fiscal policy and contractionary fiscal policy. Expansionary fiscal policy is used where the government requires deficit spending in case of recession while contractionary fiscal policy is used when there is an excess expansion which requires a surplus in the budget (Renee, 2009).

Monetary policy is another tool used to manage the aggregate demand and supply by controlling the supply of money in the economy. The government

uses the central bank to control growth, liquidity, inflation and consumption due to changes in the amount of money in the economy. The Federal Reserve System responds to excessive money supply by raising the interest rate and lowers the interest rates when there is low money supply in the market (Borio & Disyatat, 2010).

The Great Recession of 2008 presented severe economic conditions in the US and also in other countries. Furthermore, the recession was associated with elongated economic slumps and slow economic recoveries. After recession, most of the world economies went into depression and this caused a large gap in the recovery of the currency, as the developing countries have weaker currencies compared to the developed countries. The US government introduced combination of monetary and fiscal policies to solve the problems of decline in GPD, high rates of inflation and solving the problems of unemployment. The measures put forward to solve these problems included lowering the interest rates ant relaxation in tax revenue by the government. The recent recession was very severe that the government of the US applied aggressive such as large fiscal stimulus packages and expansion of central bank balance sheets in order to complement the other fiscal and monetary system measures. This ensured that there was enough money in circulation in the economy in order to restore the previous economic situation. However, the rate of recovery has been very slow as most of the economic sectors have not been able to achieve financial rationality. The restoration of money supply has been able to reduce significantly the rate of unemployment due to recovery of many businesses and lowering rate s of inflation (Navarro, 2009).

Bibliography

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