

Macroeconomics

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MACROECONOMICS Article Topic: High Public Debt, Stagnation, Deflation and Unemployment: Policy Errors and a Way Forward Richard Wood

Link: <http://www.economonitor.com/blog/2014/08/high-public-debt-stagnation-deflation-and-unemployment-policy-errors-and-a-way-forward/>

Article summary

The article reviews the monetary as well as the fiscal policies that were adopted by the United States, Japan and the Eurozone during the global financial crisis and the years after. The steps were aimed at tackling problems within the economy such as deflation credit traps, high unemployment, high debt burdens and high rates of unemployment.

According to the policymakers, several policy paradigms that were adopted to deal with the macroeconomic problems such as bond financing of budget deficits, fiscal and wage austerity, asset purchases by central banks, reliance on bank lending channels and market solutions, ultra-low longer term interest rates, become less appropriate. They therefore needed to adopt new strategies. The article highlights the major mistakes that were witnessed by the policymakers in their bid to revive the economies. Such problems were witnessed in the financing of fiscal stimulus, monetary policy and fiscal austerity.

Analysis

As an important monetary policy instrument, base rate was used to bring about changes in the entire financial market of various countries. A reduction in the base rate is likely result in an increase on the stock market owing to the fact that it increases liquidity in the market. Each country adopted its own policy since the implications varies from one country to another. It has

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been established that when facing the crisis, policy adjustment lead to diversified response among difference countries. It depends on the features of a country such as the scale of economy, the degree of economic freedom.

Graphical demonstration

Source: IMF

Link: <https://www.imf.org/external/np/speeches/2012/032912.htm>

References

IMF (Oct. 2009). World Economic Outlook: Sustaining the Recovery. Washington, IMF.

International Monetary Fund. March 10, 2010. “ International Financial Statistics and World Economic Outlook databases.” IMF.