

Macroeconomic Issues and Policy

Econ 202 Lecture 11

Petar Stankov

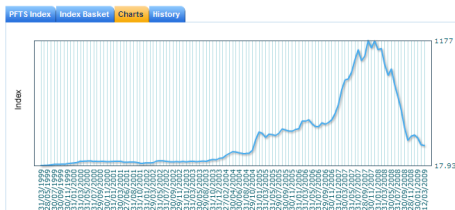
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8 Dec. 2009

- 1 Stabilization policies
- 2 Monetary policy responses
- 3 Fiscal policy responses

Stock Markets...continued.

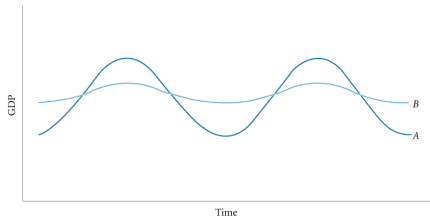
Kiev and Bratislava



Kiev



Bratislava

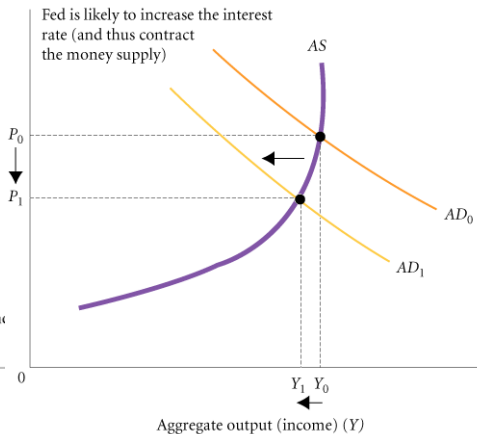
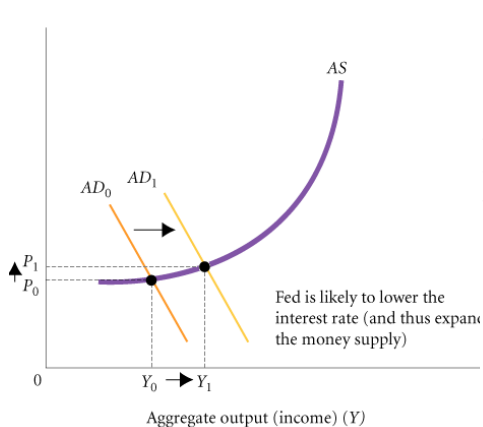


Stabilization policies

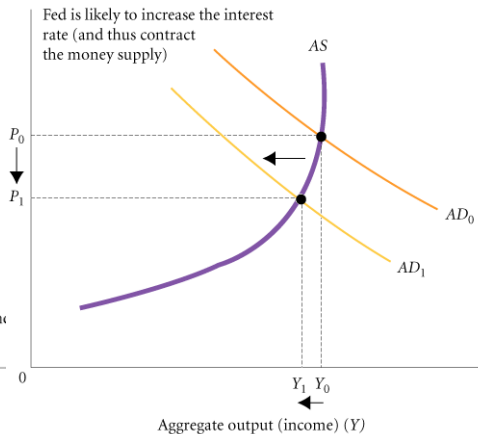
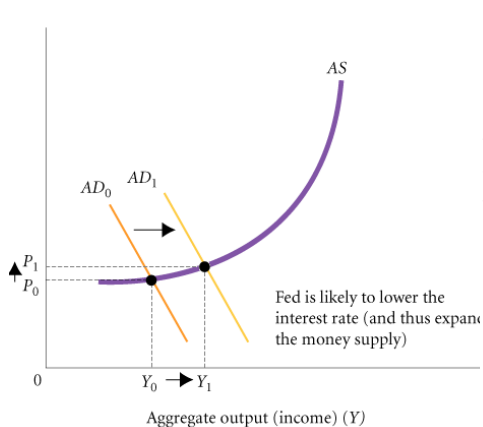
A policy mix intended to smooth the business cycle (to avoid large fluctuations in GDP):

- fiscal policies
- monetary policies

Policy Responses: The ideal situation

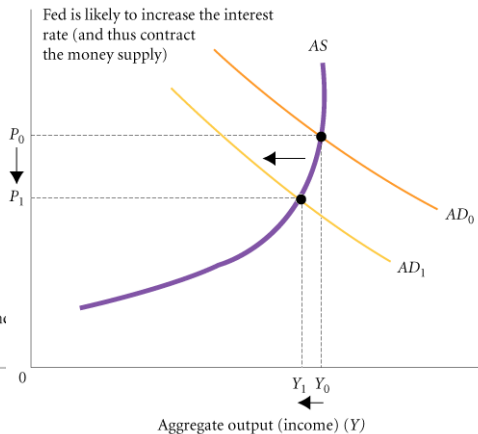
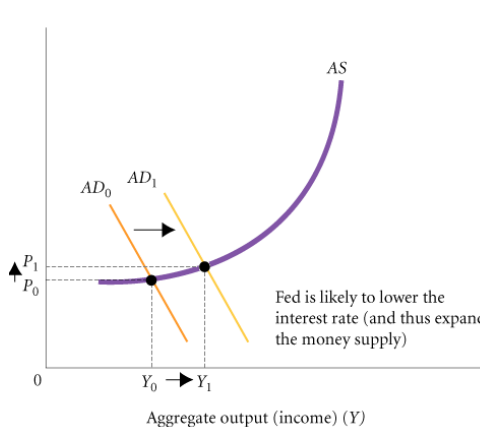


Policy Responses: The ideal situation



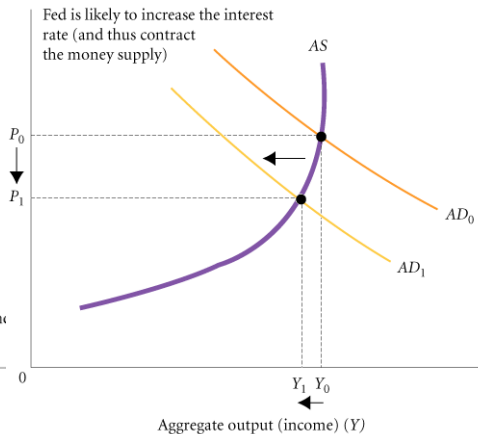
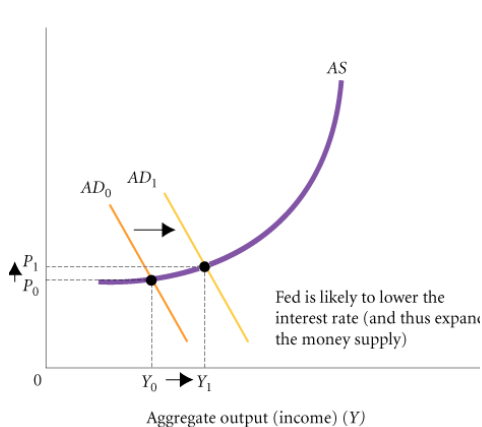
Do economists and policymakers recognize the problems immediately?

Policy Responses: The ideal situation



Do economists and policymakers recognize the problems immediately? Do the politicians adopt appropriate policies immediately (if at all...)?

Policy Responses: The ideal situation



Do economists and policymakers recognize the problems immediately? Do the politicians adopt appropriate policies immediately (if at all...)? Do consumers and businesses respond immediately to the adopted policies?

Lags in macro policies

Recognition lag

The time it takes for policy makers to recognize the existence of a boom or a slump.

Example: In spring 2008, interest rates were already falling...

Implementation lag

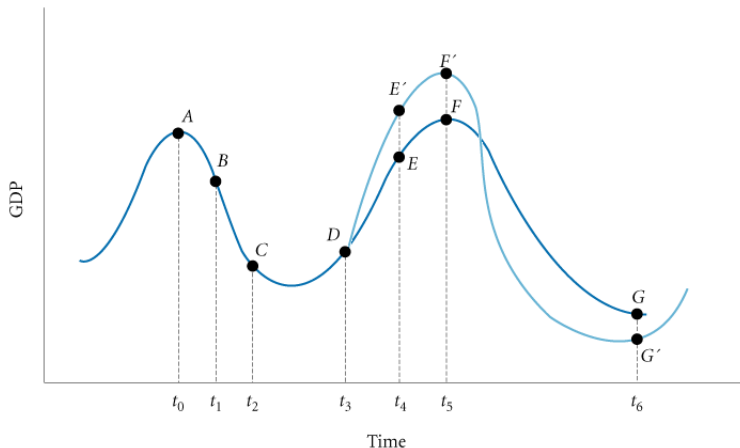
The time it takes to put the desired policy into effect once economists and policy makers recognize that the economy is in a boom or a slump.

- much shorter for monetary policy than for fiscal policy

Response lag

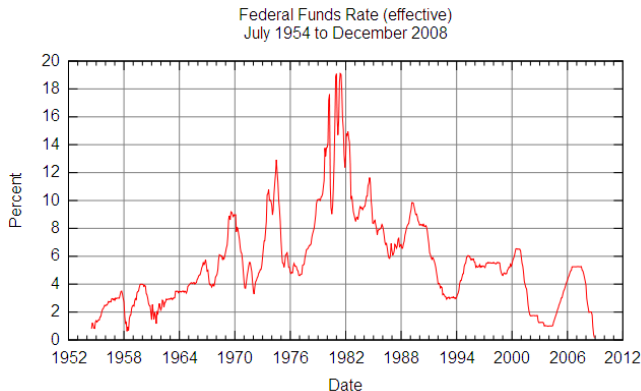
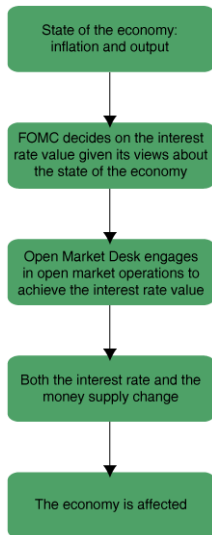
The time that it takes for the economy to adjust (react, respond) to the new conditions after a new policy is implemented.

How can the policy make things worse?



Example: Late 1970s, early 1980s – policy overshoot, volatility increased.

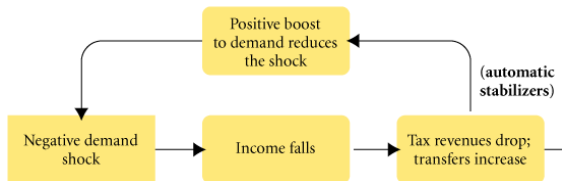
An example of how is monetary policy conducted



The Fiscal policy and automatic stabilizers

Automatic stabilizers

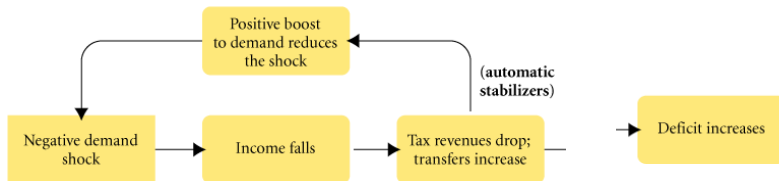
Revenue and expenditure items in the federal (country) budget that automatically change with the economy in such a way as to stabilize GDP.



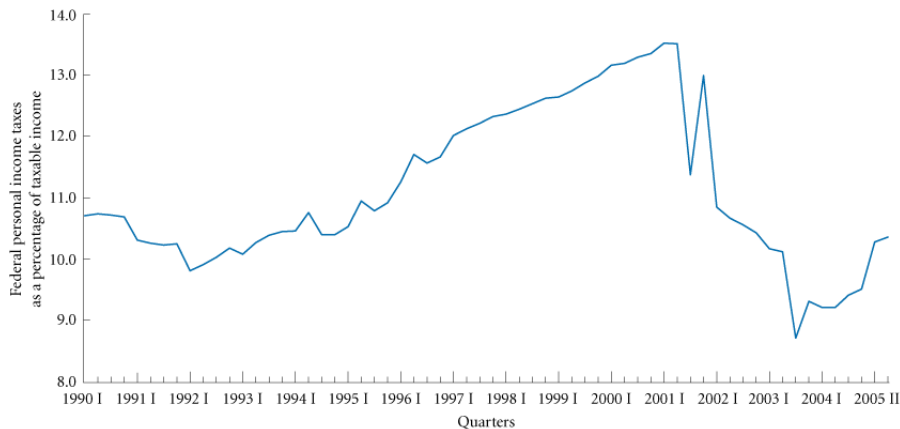
The Fiscal policy and automatic stabilizers

Automatic stabilizers

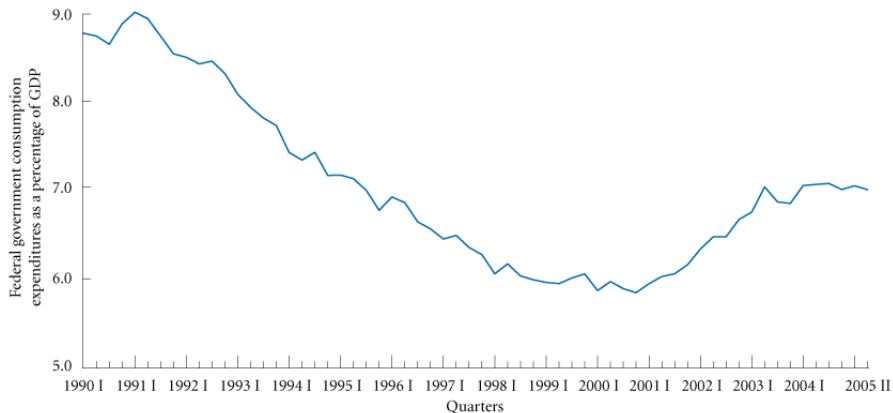
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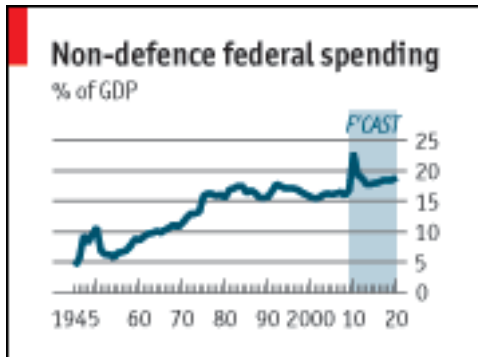
Automatic stabilizers insufficient... sometimes



Automatic stabilizers insufficient... sometimes (2)

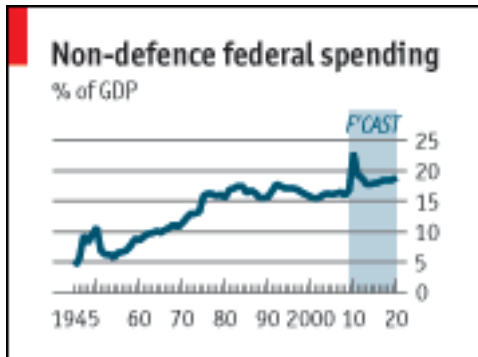


Automatic stabilizers insufficient... sometimes (2)



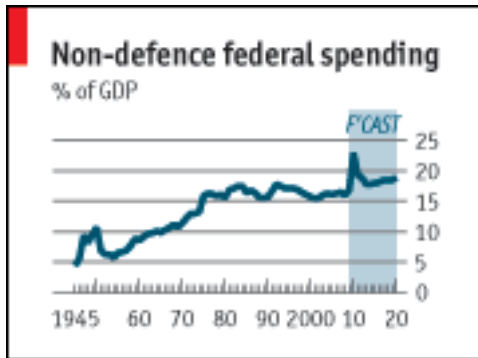
What would be the consequences for the budget?

Automatic stabilizers insufficient... sometimes (2)



What would be the consequences for the budget?
How can the government finance its expenditures?

Automatic stabilizers insufficient... sometimes (2)

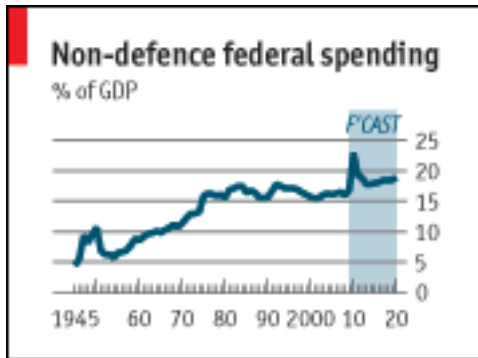


What would be the consequences for the budget?

How can the government finance its expenditures?

What is the effect on the bonds market, and on interest rates?

Automatic stabilizers insufficient... sometimes (2)



What would be the consequences for the budget?

How can the government finance its expenditures?

What is the effect on the bonds market, and on interest rates?

Can we say something about the effects on the exchange rate?