

# *Macroeconomic Policies*

## *Money and Monetary Policy*

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- \* **Fiscal Policy**
- \* **Monetary policy**
- \* **Supply Side policy**

# Monetary Policy

- \* Attempts to *influence the level of economic activity* (the *amount of buying and selling* in the economy) through changes to *the amount of money in circulation and the price of money* – short-term interest rates.
- \* Interest rates the key area of Monetary Policy

# Monetary Policy... cont'd

- \* Short-term interest rates set by Bank Negara Malaysia;
- \* ***Basis of Monetary Policy is that there is a long run relationship between the amount of money and inflation;***
- \* Monetary policy looks also into:-
  - \* **Demand for Money** – the amount people wish to ***hold as cash*** as opposed to other assets
  - \* **The Supply of Money** – the amount of money in ***circulation*** in the economy

# 1. Monetary Policy

- The Classical Quantity Theory of Money:
  - **$MV = PY$**
  - (where  $M$  = the money stock,  $V$  = velocity of circulation,  $P$  = price level and  $Y$  = level of national income
  - Velocity?



## *Velocity of Circulation*

- \*The number of times annually that money on average is spent on goods and services that make up GDP.

## 2. Supply Side Policy

- \* Incentives
- \* Education and Training
- \* Investment
- \* Technology Improvements
- \* Productivity/Efficiency

# Supply Side Policy

- \* Intention is to shift the *aggregate supply* curve to the right, increasing the long term productive capacity of the economy;
- \* Tend to be long-term policies;
- \* Arguments about how effective they are – e.g. lowering taxes increases incentives, reducing welfare dependency increases the urge to find work



# Aggregate Supply and Demand

demand

- The total level of spending in the economy

supply

- The total amount of output in the economy

# Supply Side Policy

- Policies aim to **influence productivity and efficiency of the economy;**
- Key feature – open up markets and de-regulate to improve efficiency in the working of markets and the allocation of resources

# Supply Side Policy

- \* Main areas of policy:
  - \* **Labour Market** – reduce barriers to free market, reduce bureaucracy and ‘red tape’  
Short term contracts
  - \* Flexible working arrangements
  - \* Hiring and firing
  - \* Contracts, terms and conditions, pay

# Supply Side Policy

- \* Education and Training:
  - \* National Qualifications framework
    - logical set of qualifications
  - \* Expansion of vocational qualifications
  - \* Expansion of university access

# Supply Side Policy

- \* Incentives and technology:
  - \* Tax reform to encourage incentives and entrepreneurial spirit
  - \* Incentives to develop new technology – investment
  - \* Drive to embracing ‘knowledge driven economy’
  - \* Regional policies to encourage enterprise, investment, location, expansion

# Fiscal Policy

- \* Influencing the *level of economic activity* through *manipulation of government income and expenditure*
- \* Influence Aggregate Demand –
  - \* Tax regime influences consumption (C) and investment (I)
  - \* Government Spending (G)
- \* Influences key economic objectives
- \* **Acts as an ‘automatic stabiliser’**
  - \* **BUT:**

# Fiscal Policy

- \* Also used *to influence non-economic objectives and provide framework for supply side policy;*
- \* e.g. education and health, poverty reduction, welfare reform, investment, regional policies, promotion of enterprise, etc.

# Fiscal Policy

## Government Expenditure

- Social Security
- Law and Order
- Emergency Services
- Health
- Education
- Defence
- Foreign Aid
- Environment
- Agriculture
- Industry
- Transport
- Regions
- Culture, Media and Sport