
Lecture

The Government Economic Policy

Lecture The Government Economic Policy

1. Budget Policy

2. Fiscal Policy

3. Budget policy

Key words:

Currency board – валютний коридор

Contractionary policy – політика грошово-кредитної рестрикції

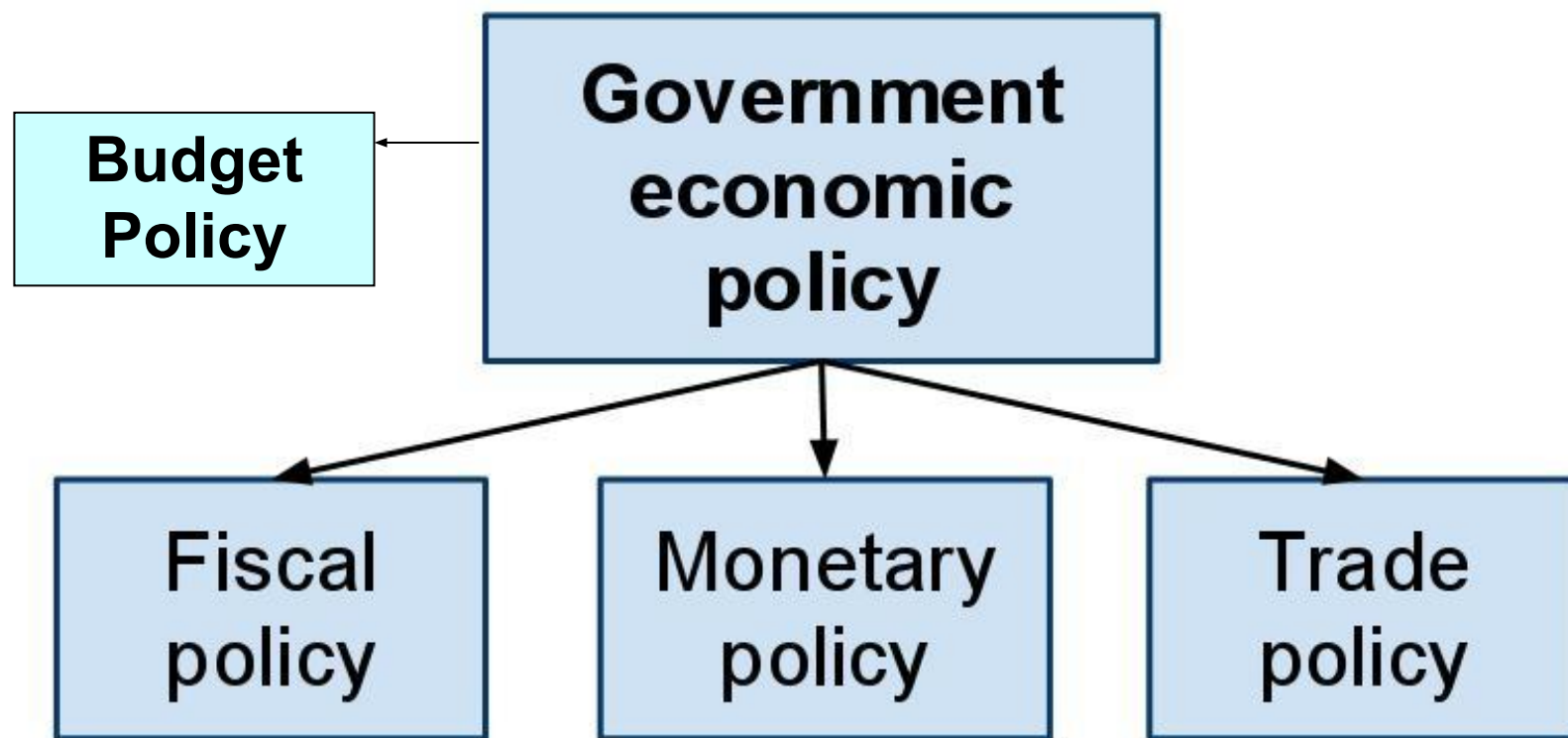
Expansionary policy – політика грошово-кредитної експансії

Economic policy refers to the actions that governments take in the economic field. It covers the systems for setting interest rates and government budget as well as the labour market, national ownership, and many other areas of government interventions into the economy.

Policy is generally directed to achieve particular objectives, like targets for **inflation**, **unemployment**, or **economic growth**. Sometimes other objectives, like military spending or nationalization are important.

Lecture: The Government Economic Policy

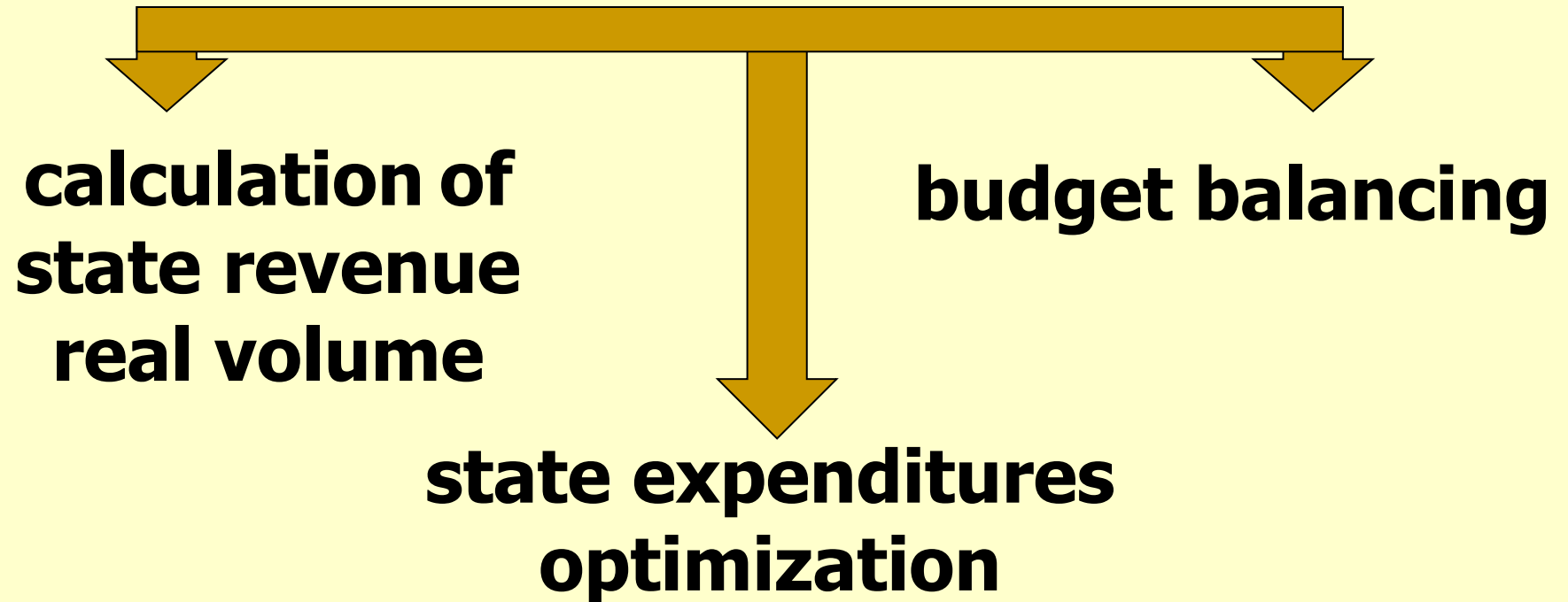
Types of economic policy:



2. Balance



Main tasks of budgeting



Budget status



Budget surplus

=

**revenues >
expenditures**

Budget deficit

=

**revenues <
expenditures**

revenues = expenditures

Government debt (national debt)

is money (or credit) owed by any level of government; either central government, federal government, municipal government or local government.

Government debt can be categorized as

- ***internal debt***, owed to lenders within the country
- ***external debt***, owed to foreign lenders

Basic goals of financial policy in conditions of state budget deficit:

- increase the budgetary borrowing stake in the nonbank sector via mobilizing funds of population, firms and others investors;
- continuance of the course on uninflationary coverage of deficit with the successive decreasing of external borrowings.

Зведений бюджет України у 1996 – 2010 р.р.

	Доходи	Видатки	Дефіцит (-)/ профіцит (+)
	Млрд. грн.		
1996	30,2	34,2	-4,0
1997	28,1	34,3	-6,2
1998	28,9	31,2	-2,3
1999	32,9	34,8	-1,9
2000	49,1	48,1	1,0
2001	54,9	55,5	-0,6
2002	61,9	60,3	1,6
2003	75,3	75,8	-0,5
2004	91,5	102,5	-11,0
2005	134,2	142,0	-7,8
2006	171,8	175,5	-3,7
2007	219,9	227,6	-7,7
2008	297,9	312,0	-14,1
2009	273,0	314,2	- 37,3
2010	320,1	379,8	- 54,1

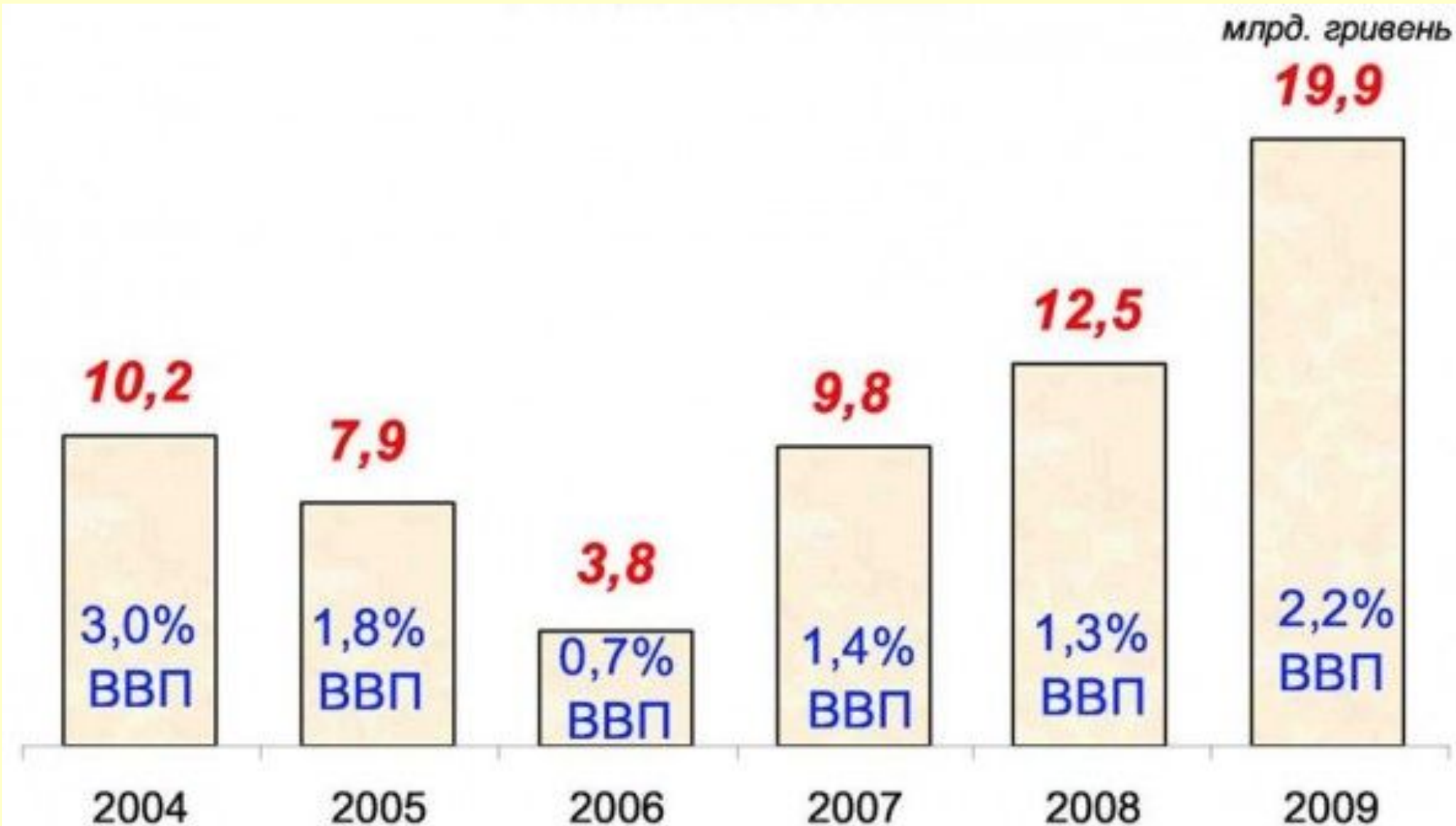
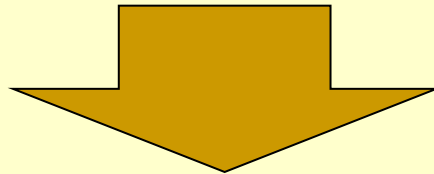


Рис. Динаміка дефіциту Державного бюджету України за 2004-2009 р.р.

Fiscal policy is the use of government expenditure and revenue collection to influence the economy.



Governments spend money from its budget on a wide variety of things, from the military and police to services like education and healthcare, as well as transfer payments such as welfare benefits. This expenditure can be funded in a number of different ways.

All of these except taxation are forms of deficit financing.

Fiscal policy tools

Taxation

Seigniorage, the benefit from printing money

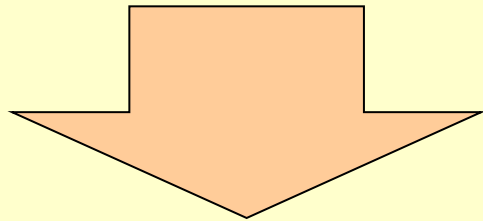
Borrowing money from the population or from abroad

Consumption of fiscal reserves.

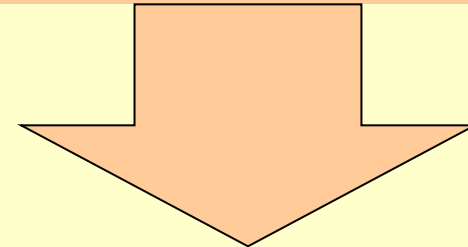
Sale of fixed assets (e.g., land).

All of these except taxation are forms of deficit financing.

Monetary policy is the process by which the Central Bank of a country controls the supply of money, often targeting a rate of interest to reach a set of objectives oriented towards the growth and stability of the economy.



Monetary policy is referred to as either being an **expansionary** policy, or a **contractionary** policy, where an expansionary policy increases the total supply of money in the economy rapidly, and a **contractionary policy** decreases the total money supply, or increases it slowly.



Expansionary policy is traditionally used to **combat unemployment** in a recession by lowering interest rates, while **contractionary** policy involves raising interest rates to combat **inflation**.

Classical and Keynesian views of fiscal policy.

The belief that expansionary and contractionary fiscal policies can be used to influence macroeconomic performance is most closely associated with **Keynes and his followers.**

The **classical** view of expansionary or contractionary fiscal policies is that such policies are unnecessary because there are market mechanisms—for example, the flexible adjustment of prices and wages—which serve to keep the economy at or near the natural level of real GDP at all times.

Accordingly, classical economists believe that the government should run a balanced budget each and every year.

Lecture 8:

The Government Economic Policy

Monetary policy tools

Monetary base

Reserve requirements

Interest rates

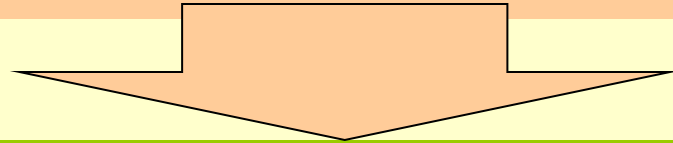
Currency board

Stabilization policy is a package or set of measures introduced to stabilize a financial system or economy.

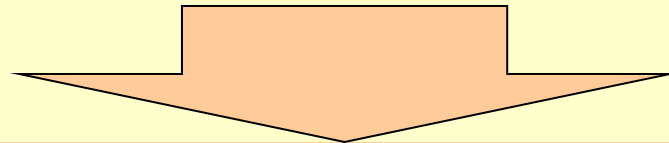
Stabilization can refer to **correcting** the normal behavior of the **business cycle**. In this case the term generally refers to demand management by monetary and fiscal policy to reduce normal fluctuations and output.

The policy changes in these circumstances are usually **countercyclical**, compensating for the predicted changes in employment and output, to increase short-run and medium run welfare.

Crisis stabilization refer to measures taken to resolve a specific economic crisis, for instance an exchange-rate crisis or stock market crash, in order to prevent the economy developing recession or inflation.



The package is usually initiated either by a **government** or **central bank**, or by either or both of these institutions acting in concert with international institutions such as the **IMF** or the **World Bank**.



Depending on the goals to be achieved, it involves some combination of restrictive fiscal measures (to reduce government borrowing) and monetary tightening (to support the currency).

This type of stabilization can be **painful, in the short term**, for the economy concerned because of lower output and higher unemployment.

While this is clearly undesirable, the policies are designed to be a platform for successful long-run **economic growth** and reform.

Rather than imposing such policies after a crisis, the international financial system architecture needs to be reformed to avoid some of the risks (e.g. hot money flows and hedge fund activity) that some people hold to destabilize economies and financial markets, and lead to the need for stabilization policies and IMF interventions.

Have a nice weekend!!!

