Economics 102-03

Part C Comments

A One or more of efficiency (unemployment, utilization of plant and equipment), stability (inflation), growth (change in real GDP and or equity (distribution of income, wealth, access to resources) not covered for policies proposed.

B Policy implementation for government or central bank, GDP component (C, I , X M) consistency of polices with those of the dominant political party, the country's exchange rate, and/or need for change in institutions omitted for one or more policies. Failing to include these linkages detracts from the reasonableness and feasibility of the policy proposals.

For most developed economies, the government and central bank have the power to implement policies and no major institutional changes are likely to be necessary. An exception to the latter is liberalization of employment policies in European economies (most recently France, but also Italy) to make it easier for firms to lay off workers during recessions which increases firm's likelihood of adding to employment (reducing unemployment) during periods of expansion.

Exchange rate effects of expansionary fiscal policies (for the most countries an appreciation of their exchange rate) as their economies continue to recover makes exports more expensive and imports less expensive, offsetting the results of the expansionary polices.
Dominant political party positions which are omitted or inconsistent with policy proposals also reduce the reasonableness and perhaps clarity.

C Including the years for each of the inflation/unemployment plots make it possible to see the short run Phillips curves (SRPC). Rather than one Phillips curve for the 2008-2021 (2022) period most countries experienced a shift of their SRPC. The usual pattern for most developed countries is a leftward and somewhat downward shift of SRPC for the last few years (post COIVID) compared to the SRPC for the earlier years. For European countries using the Euro as their currency (EMU) countries the shift may be mostly leftward with relatively steady inflation as a result of the European Central Bank's monetary policies. Not recognizing the shift can result in inappropriate, out date policies.

D Proposed policies are inappropriate for stated policy objectives (e.g. proposing contractionary polices to reduce unemployment) or the unemployment, inflation, GDP growth characteristics of the economy. Or the opposite, recommending expansionary policies when inflation is high or GDP is increasing beyond the typical level as shown in the Part A data on GDP growth.

E Monetary policy is formulated and implemented by the European Central Bank, not the country's central bank since the country is a member of the European Monetary Union (EMU) and uses the Euro for its currency. On the other hand, EMU countries can formulate and implement their own fiscal policies as long as the fiscal policy (policies) do not violate guidelines for debt and spending the countries agreed to when they adopted the Euro.