Lecturer: Shahin Maharramli

Class: Economic Policy

Group Number: 1064

 **Introduction to Economic Policy and several basic concepts: Why “Government Intervention” is needed? The roles of Economic Policies.**

1. What is Economic Policy? Please list some examples of Economic Policies.
2. What are the main functions of Economic Policies? Please Explain broadly.
3. What are Active and Passive Policy? Explain the difference between them. Policy should be active or passive. What do you think? Please justify your opinion
4. What are the outside and inside lags in the implementation of Policies? Why these lags occur? What are automatic stabilizers?

**Case Questions**

1. What is Positive economics? Imagine you have appointed to the Minister of Finance by the president recently and you are asked to make 3 Positive Statements on economic situation of the country. What would be your positive statements? (You can take Azerbaijan or any country as an example and make Positive Statements based on the current economic situation of this country. You are not expected to be precise and fully correct in your statements. You should show the way of your understanding on Positive Economics.)
2. What is Normative Economics? Imagine you have appointed to the Minister of Finance by the president recently and you are asked to make 3 Normative Statements on economic situation of the country. What would be your normative statements? (You can take Azerbaijan or any country as an example and make Normative Statements based on the current economic situation of this country. You are not expected to be precise and fully correct in your statements. You should show the way of your understanding on Normative Economics.)
3. Please explain the policy of “Allocation of Resources”. Imagine you are the Minister of Economy of Azerbaijan. How would you realize “Allocation of Resources”? Does Azerbaijan have allocation problems? In which sectors and which regions? How would you like to develop strategic plans in order to allocate resources more efficiently for Azerbaijan? (You are not expected to be precise and fully correct in your statements. You should show the way of your understanding).

**Demand and Supply-Side Policies and main problems of these policies. Ideology and Economic Policies. Economic Policies in Practice. Policy by Discretion and by Rule.**

1. What are Demand-Side Policies?Please list some examples of Demand-Side Policies.
2. What Are Supply Side Policies? Please List some examples of Supply Side Policies.
3. What are the main disadvantages of Supply Side Policies?
4. What are the policies conducted by Rule and By Discretion? What are the differences between them? According to your opinion, how policies should be conducted? By rule or by discretion? Please justify your opinion with examples if possible.
5. What are the Problems of Discretionary Policies? What is Political Business Cycle and how it can create problem in reality? Please, explain the time inconsistency of discretionary policy.
6. What are the main functions of Central Banks? Central Banks should be dependent or independent? Please, comment on both statements. What are the advantages of independency? What are the advantages of political dependency?
7. Explain the following political ideology in the context of economic policies: Liberal, Conservative and Libertarian. To what extent government should intervene to the economy according to these ideologies.

**Case Questions**

1. What is Stagflation? Now imagine that your country is suffering from stagflation and you are economic adviser of the Prime-Minister. Which supply-side policies you would suggest? What would you learn from Ronald Regan’s policies? What other policies you would like to imply? (Hint: You may use minimum wages, taxes, tariffs and etc. as tools. You are not expected to be fully correct in your answer. Your way of thinking and approach are more important.)
2. Imagine you are Prime Minister of the country and with your consultants you decide to pursue various supply-side policies to boom the economy in the long-run. You are free to choose policies. Please list the policies you would like to launch. (Policies can be applied to Education, Labor Market, Capital Market and so on.) What kind of potential problems you may face? (You can remember the disadvantages of Supply-Side Policies).
3. Imagine that to encourage research; the government announces that it will give a temporary monopoly to companies that discover new drugs. Advocates say that, this policy will help to advance medical sphere and find proper treatments for some viruses. Evaluate this argument in light of the time-inconsistency problem.

**Introduction to Monetary Policies: The main tools of Monetary Policies. Issues and Theories.**

1. What is Expansionary Monetary Policy? Explain the tools and working mechanism. In which situation governments apply this policy? Does this policy create Inflation or deflation? Why?
2. What is Contractionary Monetary Policy? Explain the tools and working mechanism. In which situation governments apply this policy? Does this policy create Inflation or deflation? Why?
3. What are the functions of money? Explain M1, M2 and M3 money.
4. What is the “Quantity Theory of Money”? Write the formula and explain.
5. What is “Reserve Requirement Ratio”?. If the government increase money supply by 3500 USD and reserve requirement ratio is 10% how much money will be created in the economy eventually?

**Case Questions:**

1. Imagine that you are a head of Central Bank and the country is in a recession, so real GDP declines. What typically happens to consumption, investment, and the unemployment rate? Which policy and tools you would pursue to boom Economy?
2. Imagine you are a head of Central Bank and your country is experiencing high level of inflation. What typically happens to consumption, investment and the unemployment rate? Which policy and tools you would use to reduce inflation?
3. Imagine that you are current Prime Minister of the country and you have right to supervise Central Bank. After 1.5 year you will run for the next election. What kind of policies you can follow to achieve economic boom in a short time and to gain some positive feedbacks? Can your policy create inflation?

 **Introduction to Fiscal Policies: What is Public Budget and Public Debt?**

1. What is Government Budget (Public Budget)? What are the receipts and spending of Public Budget? Please explain three types of budget. After explaining three types, please chose one of them and write down at least one advantage and one disadvantage.
2. What are Public Debt and External Debt? When Public Debt is Good and when it is Bad? What does Debt to GDP Ratio indicate?
3. What is Expansionary Fiscal Policy and why do governments use it? What are the main tools? Please draw Aggregate Supply and Aggregate Demand Graph to show the effects of expansionary fiscal policy. (In the graph you should draw Short Run AD, AS and Long Run AS curves). Is this policy effective in the short run or long run?
4. What is Contractionary Fiscal Policy and why do governments use it? What are the main tools? Please draw Aggregate Supply and Aggregate Demand Graph to show the effects of contractionary fiscal policy. (In the graph you should draw Short Run AD, AS and Long Run AS curves). Is this policy effective in the short run or long run?
5. Assume there is a recession in a country and policymakers decide to use fiscal policy to close the output gap. Which policy they should use? Expansionary or Contractionary? (**Problem Solving : Calculation and explanation of tax and expenditure multipliers**)
6. Assume there is an inflation in a country and policymakers decide to use fiscal policy to decrease the prices. Which policy they should use? Expansionary or Contractionary? (**Problem Solving : Calculation and explanation of tax and expenditure multipliers**)
7. Imagine that a country suffers from recession and it has (X dollars) of deficit in aggregate demand. Government decides to use taxes as a tool to boom economy. It should decrease or increase taxes? It will lose or earn tax revenue? How much? If government decides to use government spending as a tool, it should decrease or increase government spending? How much? Which one is greater: change in taxes or change in government spending? (**Problem Solving : Calculation and explanation of tax and expenditure multipliers**).
8. Imagine that a country suffers from high inflation and it has (X dollars) of surplus in aggregate demand. Government decides to use taxes as a tool to reduce inflation. It should decrease or increase taxes? It will lose or earn tax revenue? How much? If government decides to use government spending as a tool, it should decrease or increase government spending? How much? Which one is greater: change in taxes or change in government spending? Why? (**Problem Solving : Calculation and explanation of tax and expenditure multipliers**).
9. Imagine that country suffers from a recession and aggregate demand is lower than it’s equilibrium level. What happens to unemployment, prices, and interest rate in this situation? (**Problem Solving : Calculation and explanation of tax and expenditure multipliers**).After expansionary fiscal policy, what will happen to unemployment, prices and interest rate?
10. Imagine that country suffers from high level of inflation and aggregate demand is higher than it’s equilibrium level. What happens to unemployment, investment and interest rate in this situation? (**Problem Solving : Calculation and explanation of tax and expenditure multipliers**). After contractionary fiscal policy, what will happen to unemployment, investment and interest rate?
11. **(Problem Solving: calculation of MPC and expenditure multiplier with the given increase in spending and Aggregate demand).** Now suppose that country is in a recession and there is a (X dollars) dollars output gap. It should decrease or increase taxes? By using MPC you calculated before, please tell how much change in taxes revenue needed to close this gap?

We know that, if government decides to use government spending as a tool, change in government spending would be lower that change in tax revenues. Explain why?

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**Case Questions:**

1. Suppose that you have been hired as an economic consultant to the country to help the economy move to potential output, YP. The accompanying diagram shows the current macroeconomic situation for the economy.



Is this country facing a recessionary or inflationary gap? Which type of fiscal policy you would suggest to move the economy to potential output, Yp? Write the fiscal policy tool clearly which you would suggest. Please, illustrate the macroeconomic situation in this country with a diagram after the successful fiscal policy has been implemented. What will happen to unemployment, interest rate, investment after implementation of policy? What kind of potential problems the country may face after implementing your policy suggestion?

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1. Imagine that you are an economic adviser to a candidate for presidency. She has to explain her budget policy to the voters (seçicilərə) and asks you for a summary of the economic consequences of a balanced-budget rule. What can be problems of this budget strategy for a country? Mention some disadvantages and advantages of balance-budget. And she also asks for your recommendation whether she has to choose balance-budget rule or budget-deficit rule. How do you respond? Please justify your opinion.
2. Imagine that you are an economic adviser to a candidate for presidency. She has to explain her budget policy to the voters (seçicilərə) and asks you for a summary of the economic consequences of a budget-deficit rule. What can be problems of this budget strategy for a country? Mention some disadvantages and advantages of budget deficit. And she also asks for your recommendation whether she has to choose budget-deficit rule or balance-budget rule. How do you respond? Please justify your opinion.
3. Imagine that a government decided to run a country with budget deficit since it wants to increase government spending significantly. Now there are debates between government officials on how to finance this debt? You have been invited as an economic expert and should suggest them alternatives on financing debts. Moreover, some officials ask you to clarify that how they can know when their budget deficit dangerous and when it is good for economy. How do you respond? When budget deficit good and when it is bad or dangerous?

 **Issues with Fiscal Policy**

1. What is Crowding Out Effect and why does it occur? Please use “Market for Loans” and “Investment” graphs to show effects of crowd out. What are the Long-Run effects of Crowd Effect?

**The Real Issues of Monetary Policies. Examples from Governments.**

1. What is Liquidity Trap? Please use the “Demand for money and Interest Rate” graph to explain why does it happen? Please write down at least 2 signs of Liquidity Trap and explain briefly.

**Case Question**

1. Suppose that you are invited as an economic consultant to the country. Government officials say that the country is in “liquidity trap” since the interest rate is close to 0 and traditional monetary policies fail to increase aggregate demand. The accompanying graph shows “interest rate and Quantity money” relationship of the country. Is the country suffering from “liquidity trap”? If you think the country is suffering from “Liquidity Trap”, which policy recommendations would you give to overcome “liquidity trap”? Can Quantitative Easing be Helpful? What can be the negative sides of your policy suggestions?
2. Suppose that Government officials invite you as an economic consultant because they are afraid that country is falling into “Liquidity Trap”. Which questions you would address to check if there are the signs of liquidity trap or not. Then they ask you to explain them Quantitative Easing policy. How does this policy differ from traditional Monetary Policies? What can be the disadvantages of Quantitative Easing? Which countries applied this policy? What other suggestions you can make to overcome “liquidity trap”?

**Economic Growth-Introduction**

1. Please explain Short –Term Economic Growth. Which policies are being implemented to achieve short-term growth? What re the key factors affecting short-term growth.(please list at least 3 of them). Please draw AD-AS Graph (in the graph you should draw Short Run AS, AD and Long Run AS curves) and Production Possibility Curve to illustrate Short Run -Economic Growth.
2. Please explain Long –Term Economic Growth. Which policies are being implemented to achieve long-term growth? What re the key factors affecting long-term growth.(please list at least 3 of them). Please draw AD-AS Graph (in the graph you should draw Short Run AS, AD and Long Run AS curves) and Production Possibility Curve to illustrate Long Run-Economic Growth.
3. How we can measure Economic Growth? What are the difference between Economic Growth and Economic Development? How can a country generate economic growth? (List some policies).

**Case Question**

1. The Minister of Economy says that real GDP of a country is growing and it is enough to say that country has achieved the sustainable economic growth in the long run. But the Prime Minister does not believe him and has invited you as an economic consultant to check the statements of Minister of Economy. How can you explain to Prime Minister that it can be short-run economic growth? Which policies can drive short-run economic growth? If the Prime Minister asks you to explain him how to generate long-run economic growth, what would you tell? Please, use AD-AS (Short-run AS and AD, long run AS curves) graph to show how long run AS curve changes if government pursues long term growth policies.

**Exchange Rate Systems**

1. What is Floating Exchange System? What are the main advantages and disadvantages of floating exchange systems?
2. What is Fixed Exchange System? What are the main advantages and disadvantages of floating exchange systems?
3. Please explain Classical Gold Standard. What are the advantages and disadvantages? How was exchange rate defined under Gold Standard?
4. Explain the Bretton Woods System. How was exchanged rate defined under this system? What is Triffin Dilemma? Why did Bretton Woods’s system collapse?

**Trade Protectionism. Consumer and Producer Surplus. Calculation of Consumer, Producer surplus and Deadweight Loss after tax, tariff, price ceiling and price floor policies.**

1. What does motivate Protectionist Policies? What are the advantages and disadvantages of Protectionism? What are the main tools of protectionism? What are Red tape/regulations?

 **Problem Solvings:**

1. Calculation of Consumer and Producer Surplus before and after Price ceiling and Price floor. Calculation of Deadweight loss, interpretation of results in terms of welfare loss)
2. 57. Calculation of Consumer and Producer Surplus before and after Price ceiling and Price floor. Calculation of Deadweight loss, interpretation of results in terms of welfare loss)
3. Calculation of Consumer and Producer Surplus before and after Price ceiling and Price floor. Calculation of Deadweight loss, interpretation of results in terms of welfare loss)
4. Calculation of Consumer and Producer Surplus before and after Price ceiling and Price floor. Calculation of Deadweight loss, interpretation of results in terms of welfare loss)
5. Calculation of Consumer and Producer Surplus before and after Price ceiling and Price floor. Calculation of Deadweight loss, interpretation of results in terms of welfare loss)
6. Calculation of Consumer and Producer Surplus before and after Price ceiling and Price floor. Calculation of Deadweight loss, interpretation of results in terms of welfare loss)
7. Calculation of Consumer and Producer Surplus after minimum wage and wage floor law. Calculation of deadweight loss after policy, Interpretation of results in terms of unemployment)
8. Calculation of Consumer and Producer Surplus after minimum wage and wage floor law. Calculation of deadweight loss after policy, Interpretation of results in terms of unemployment)
9. Calculation of Consumer and Producer Surplus after minimum wage and wage floor law. Calculation of deadweight loss after policy, Interpretation of results in terms of unemployment)
10. Calculation of Consumer and Producer Surplus after minimum wage and wage floor law. Calculation of deadweight loss after policy, Interpretation of results in terms of unemployment)
11. Calculation of Consumer and Producer surplus after tax. Calculation of Tax incidence, tax burden. Calculation of deadweight loss after tax policies. And interpretations of results.
12. Calculation of Consumer and Producer surplus after tax. Calculation of Tax incidence, tax burden. Calculation of deadweight loss after tax policies. And interpretations of results.
13. Calculation of Consumer and Producer surplus after tax. Calculation of Tax incidence, tax burden. Calculation of deadweight loss after tax policies. And interpretations of results.
14. Calculation of Consumer and Producer surplus after tax. Calculation of Tax incidence, tax burden. Calculation of deadweight loss after tax policies. And interpretations of results.
15. Calculation of Consumer and Producer surplus after tax. Calculation of Tax incidence, tax burden. Calculation of deadweight loss after tax policies. And interpretations of results.
16. Calculation of Consumer and Producer Surplus before and after import tariff. Calculation of tariff revenue after import tariff policy. Calculation of deadweight loss. Defining the gain or loss to consumers and producers after tariff.
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