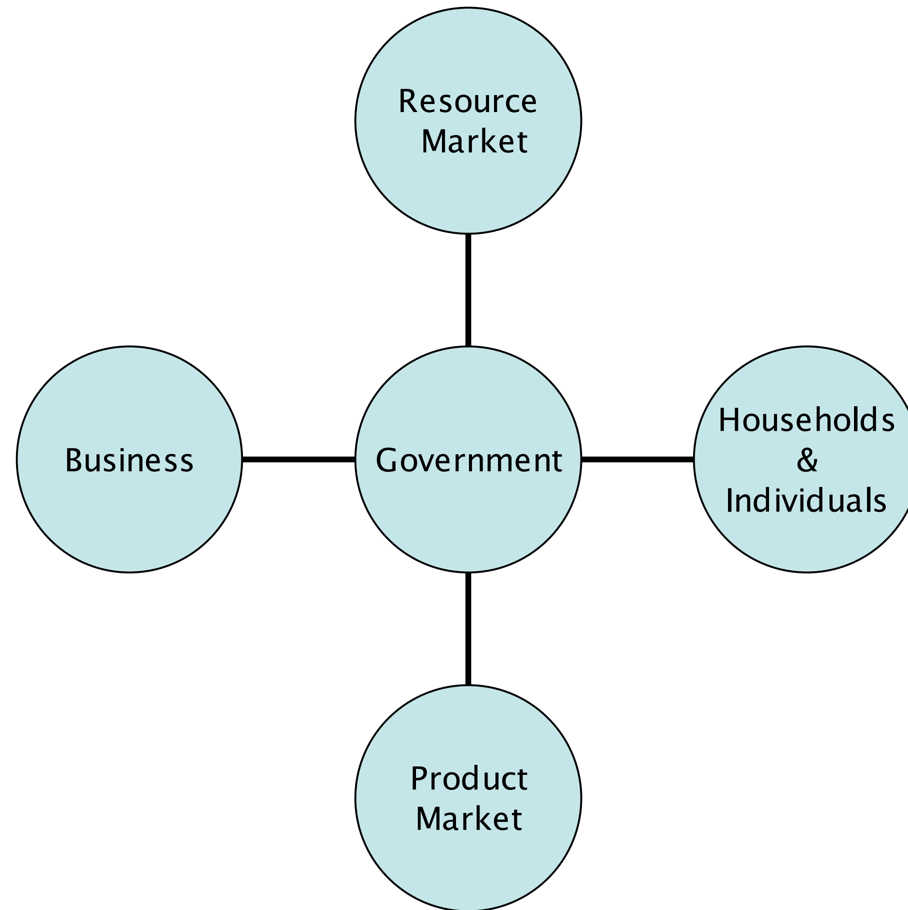
Government Goals in the Economy

- Regulate Imperfect markets via anti trust -- Insure Competition
- Meet Social Goals for Services
- Provide for needs of Defense
- Stabilize Markets

Government and the Economy



Economists and the Economy

Peoples desire for goods and services fluctuate within market cycles.

Economists track data useful in determining how limited goods and services can be utilized most efficiently.

Economic data can be tracked in order to analyze trends

Economists interpret trends and there potential affects

Trends affecting Demand e.g.

- Population Trends +,-
- Income Trends +,-
- Tastes
- Availability and cost of Credit
- Advertising
- Etc…

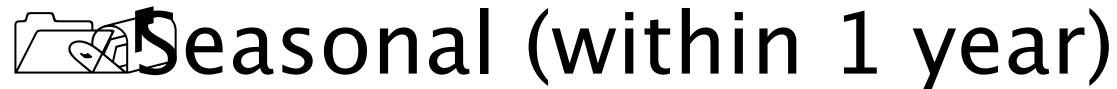
Trends affecting Supply

- Price/Cost of Factors of Production
- Demand changes (water in a bottle, big cars vs small cars etc…)
- Future projections of need

- International Impacts (Imports and Exports)

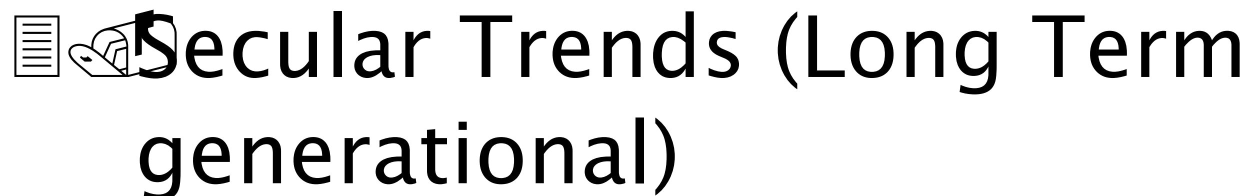
Business Fluctuations

Fluctuations in business fall under three basic types:



- Seasonal (within 1 year)

- Business Cycles (usually within decade)



- Secular Trends (Long Term generational)

Business Cycle Stages

1. Prosperity: Booming sales, profits, jobs, and income

2. Recession: Declining sales, profits, jobs, income, and growing inventories

3. Depression: Few sales, loss of income, profits, and declining production

4. Recovery: Increasing sales, jobs, income, profits, and production

*Key: “Where are we in the cycle”

Cycle Causes

- Psychology: How do the people feel?
- Innovation and Technology
- Changes in Spending Patterns
- International Conflict
- Cost of Money and Credit Availability
- Personal and Corporate Planning
- Etc…

Fiscal Policy

This is the Governments use of Spending and Taxing in order to Stabilize the Economy within a Business Cycle as follows:

1. Prosperity: Increase taxes and reduce spending
2. Recession: Decrease taxes and increase spending
3. Depression: Decrease taxes further and spend more
4. Recovery: Increase taxes and decrease spending

Monetary Policy

This is the Governments use of the Money Supply in order to stabilize the markets during business cycles through actions of the Federal Reserve as follows:

1. Change Interest Rates
2. Buy Bonds
3. Sell Bonds
4. Change Required Reserve Ratio

Theory and Reality

What works in Theory rarely happens in Reality!

1. Political Problems
2. Information Problems
3. Timing Problems

Money and Credit

Money=

1. Medium of Exchange (not barter)
2. Measure of Value (What a $ will buy)
3. Store of Value (a $ saved is $2 earned)
4. Standard of Deferred Payment (Loans)

2% Coinage, 25% Paper, 73% demand deposits

Creating Money in Banking

	Deposits	Reserves (20%)	Loans
1.	$1,000	$200	$800
2.	$ 800	$160	$640
3.	$ 640	$128	$512
4.	$ 512	$102.40	$409.60

Money Multiplier in Banking

"Required Reserve Ratio" is the key Lever

e.g. 20% Reserve = a Multiplier of 5

10% Reserve = a Multiplier of 10

4% Reserve = a Multiplier of 25

etc..

Money Supply

Too much Money = Inflation

Too little Money = Recession

The balance of the Money Supply can be the lever of Inflation of Recession

Tools of the Fed

1. Federal Funds Rate
2. Discount Rates
3. Open Market Operations
4. Required Reserve Ratio