



MACROECONOMICS - Supply-side policies

By Kru P'Da and Kru P'Eve Knockout.Economics

Overviews

1. Supply-side policy measures
2. Effects of supply-side policy measures on macroeconomic aims
3. Summary of supply-side policy to achieve government aims



Understanding policy

Policies to achieve economic aims

Demand-side policy (Policies to influence AD)

Fiscal policy

- By government
- Changes in government spending and tax rate to influence AD

Monetary policy

- By central bank
- Policies to influence AD and to control inflation by changing interest rate & money supply.

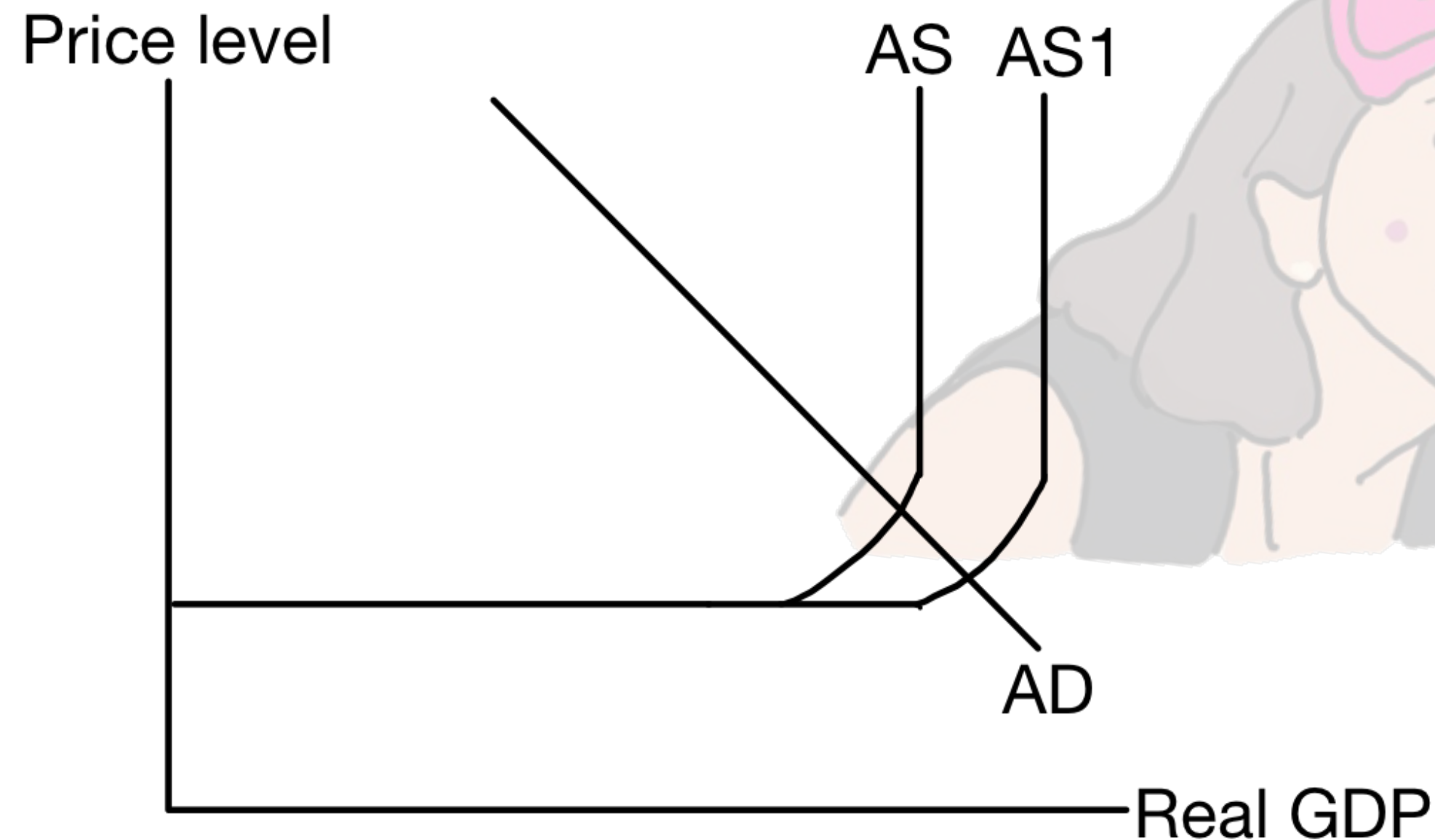
Supply-side policy (Policies to influence AS)

Supply-side policy

- Policies to increase productive potential of an economy
- e.g. education and training, deregulation.

1. Supply-side policy measures

Supply side policies : Policies to increase aggregate supply or productive potential of an economy.



Supply-side policy measures

such as education and training

- It increases aggregate supply(AS).
- It increases ***economic growth*** and ***employment***
- **Without inflationary pressure.**

1. Supply-side policy measures

Education and training

It improves workers' skills and productivity, resulting in higher national outputs.

Cut in income tax

It increases incentive to work and more outputs are produced.

Cut in corporate tax

It increases incentive to invest and expand businesses, resulting in higher outputs.

Deregulation

It reduces barrier and cost to entry the market, resulting in higher supply of products.

Control the power of trade union and industrial action

Firms are encouraged to employ more workers and expand businesses.

Subsidies

Subsidy reduces cost to firms and it increases supply of products.

2. Effects of supply-side policy measures on macroeconomic aims

To increase economic growth by supply-side policies

1. Education and training	<p><i>It improves skills and productivity of labour.</i></p> <p>=> Workers can produce more goods and services.</p> <p>=> It increases productive potential of an economy.</p>
2. Cut in income tax	<p><i>It increases incentive to work.</i></p> <p>=> More outputs are created.</p> <p>=> It leads to higher national income and output.</p>
3. Providing subsidy	<p><i>Producers can use subsidy to invest in machines.</i></p> <p>=> It reduces cost of production and increases supply of outputs.</p> <p>=> It leads to higher national income and output.</p>

Limitations of supply-side policies to increase economic growth

1. It has **time lag**. The effects of supply side policy such as education will be seen in long run.
2. It is an **expensive policy**. It can cause government budget deficit.

2. Effects of supply-side policy measures on macroeconomic aims

To reduce inflation by supply-side policies

1. Education and training	<p><i>It improves skills and productivity of labour.</i></p> <p>=> Workers can produce more goods and services.</p> <p>=> It reduces cost of production and price level.</p>
2. Cut in income tax	<p><i>It increases incentive to work.</i></p> <p>=> Workers have higher productivity and generate more outputs.</p> <p>=> It reduces cost of production and price level.</p>
3. Providing subsidy	<p><i>Producers can use subsidy to invest in machines.</i></p> <p>=> It reduces cost of production and increases supply of outputs.</p> <p>=> Firms can sell products at the lower price.</p>

Limitations of supply-side policies to reduce inflation

1. Some supply side policy also increases AD and price level e.g. government spending on education.
2. It has **time lag**. The effects of supply side policy such as education will be seen in long run.

3. Summary of supply-side policy to achieve government aims

Supply-side policy achieve government aims

Supply-side policy:

- Education
- Subsidy
- Deregulation

High economic growth

(It increases national output)

High employment

(It increases production and employment)

Low inflation

(It increases productivity and reduces cost of production and price level)

Balance of payment stability

(It reduces prices of export and increases export competitiveness)

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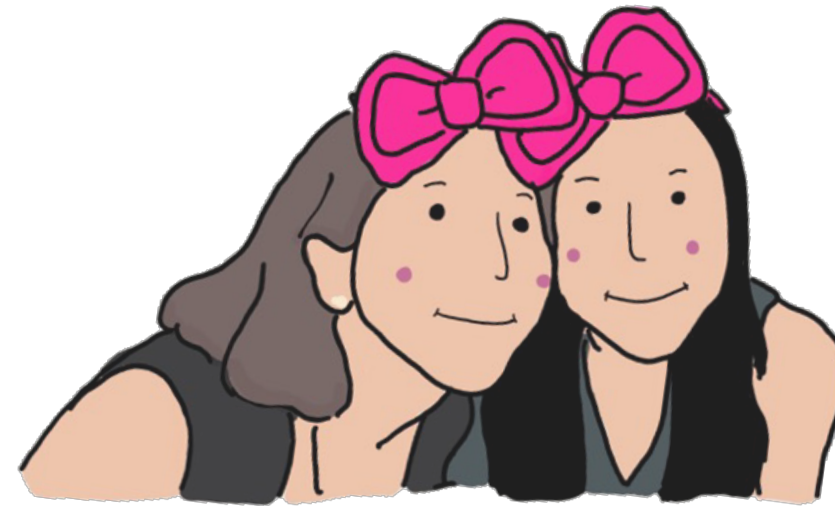
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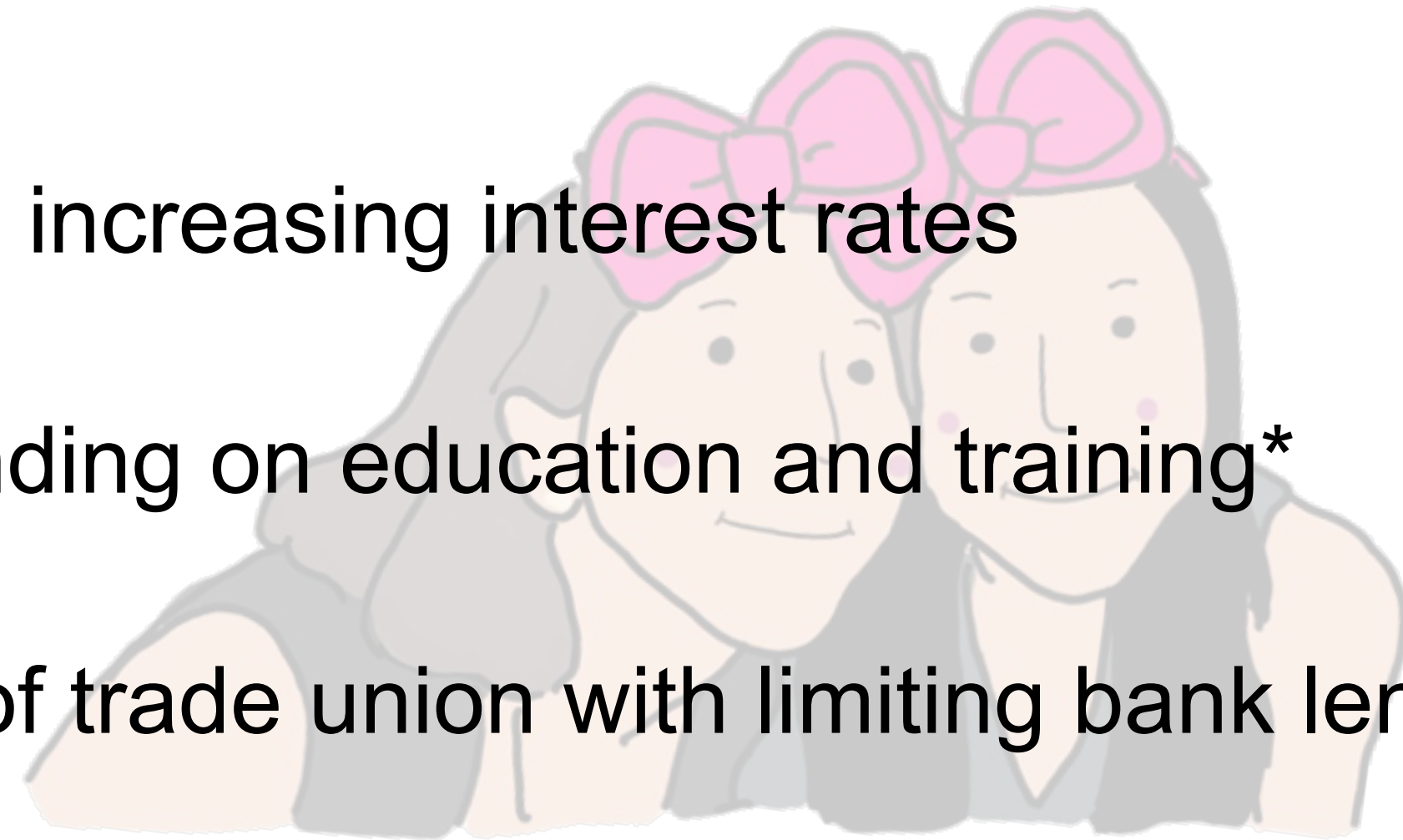
MACROECONOMICS - Exercise : Supply-side policy

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Exercise: Essay

1.) Which combination of government policies combines a fiscal policy with a supply-side policy?

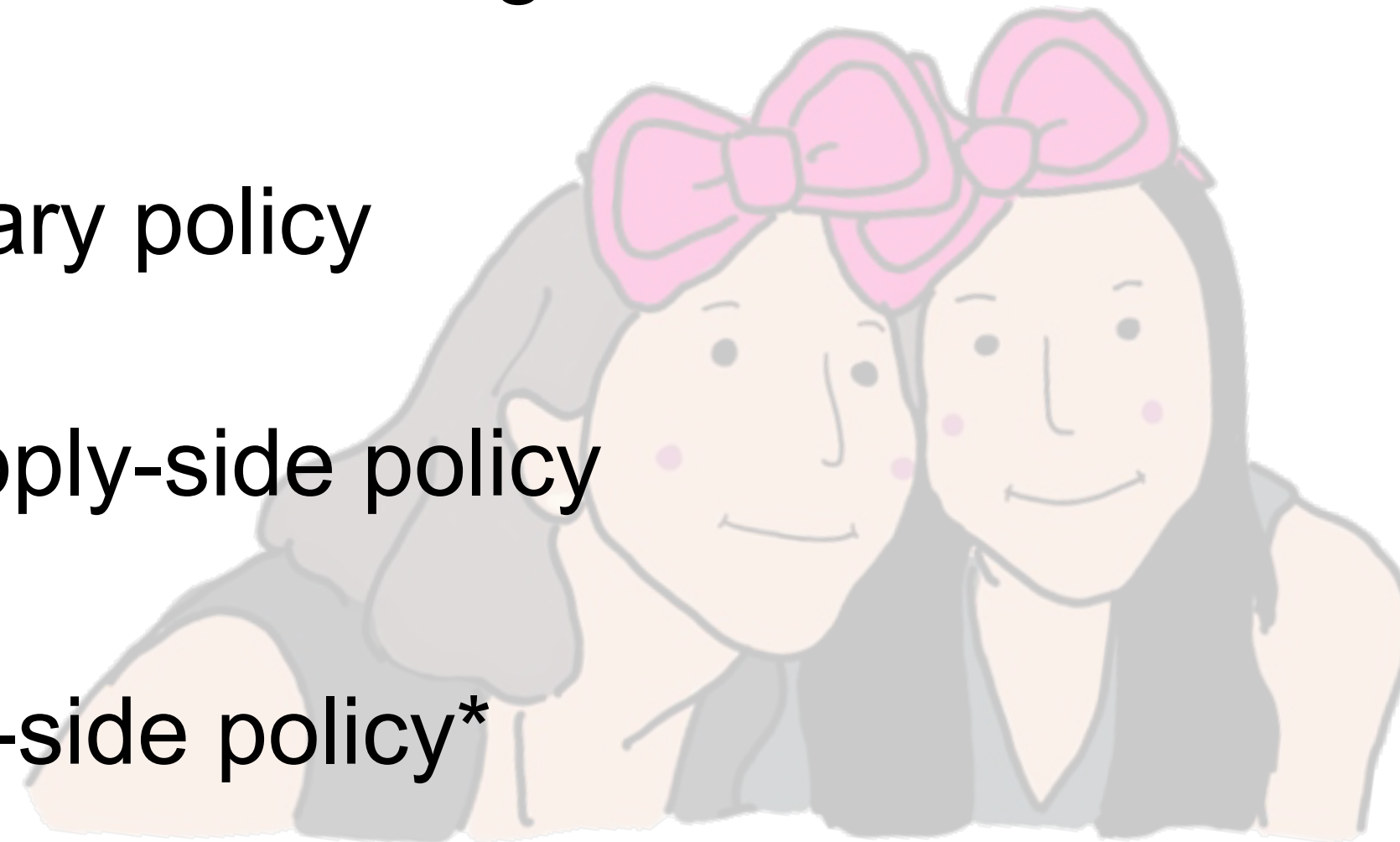
- A. Reducing tax with increasing interest rates
- B. Government spending on education and training*
- C. Reducing power of trade union with limiting bank lending
- D. Reducing interest rate with privatisation



Exercise: MCQ

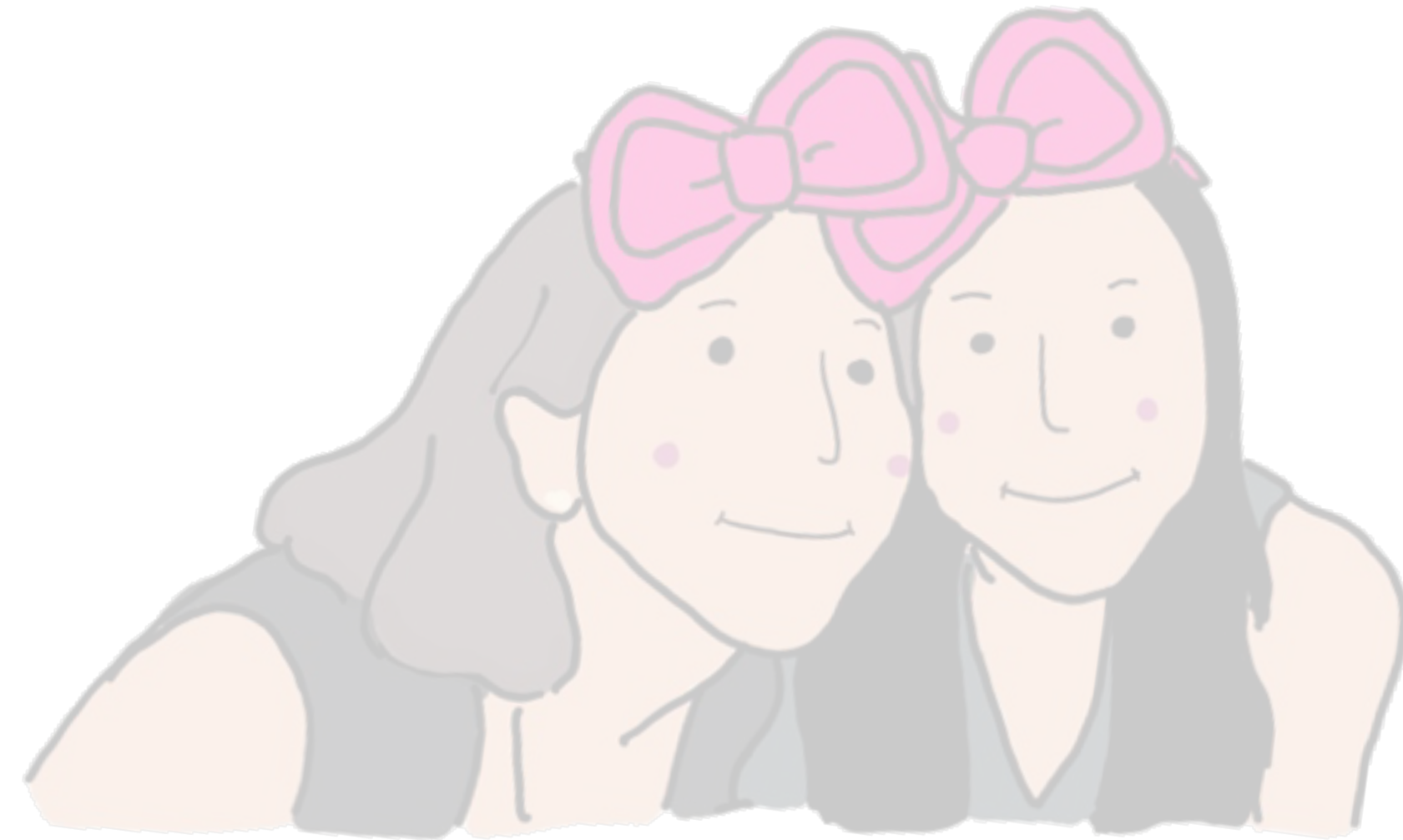
2.) A government decides to privatize the state owned enterprise and spend the revenue from privatization on pension. How might this be described?

- A. Fiscal and monetary policy
- B. Monetary and supply-side policy
- C. Fiscal and supply-side policy*
- D. Fiscal monetary and supply-side policy



Exercise: Essay

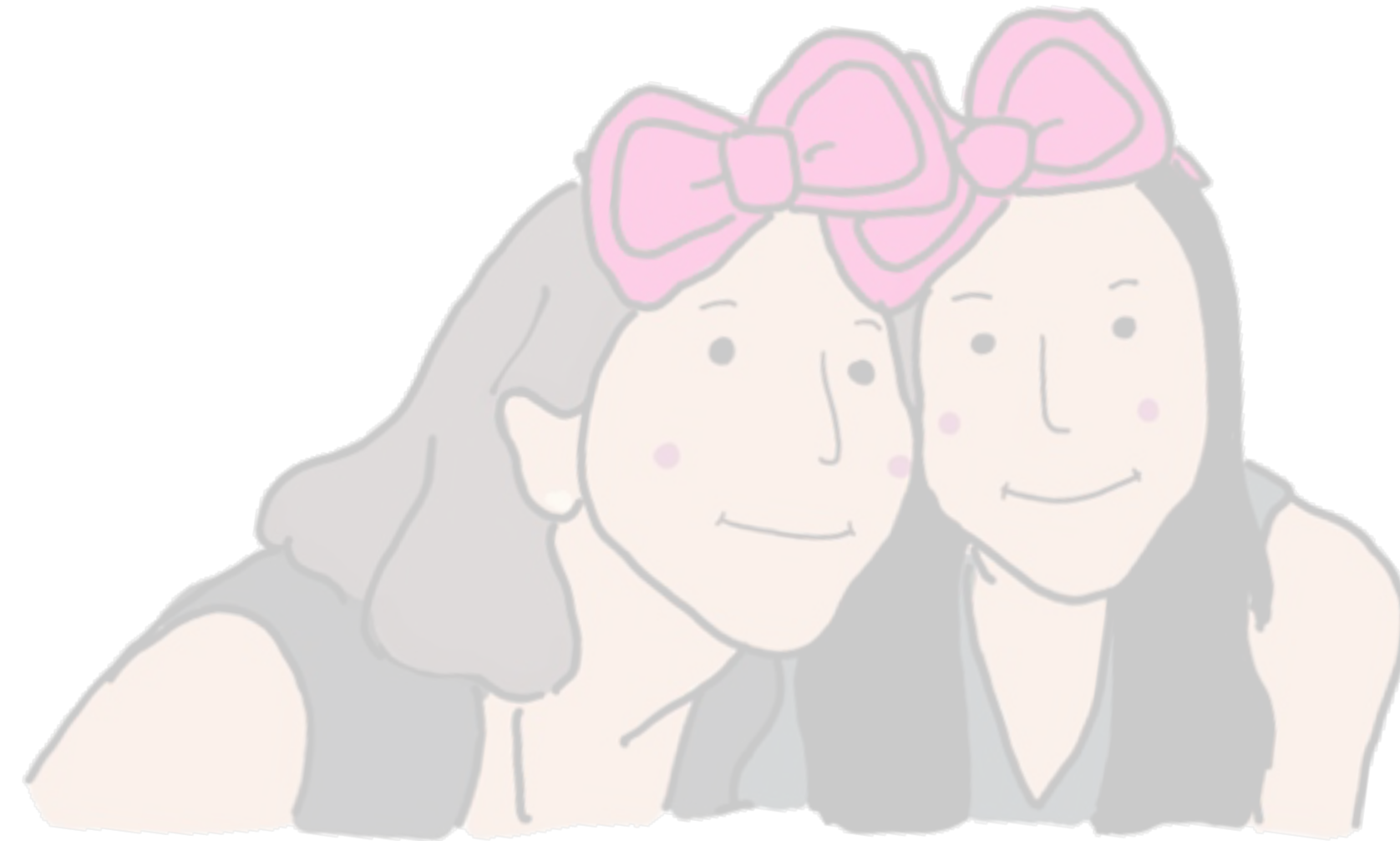
1.) Analyse how supply-side policy measures can be used to increase economic growth.
[6]



Exercise: Essay

1.) Analyse how supply-side policy measures can be used to increase economic growth.
[6]

- Education and training
- A cut in income tax
- Subsidies



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