

Government Policy	What is the policy?	Types	Why might it not work?
Fiscal Policy	The use of government spending and taxation to influence the composition of aggregate demand.	<u>Expansionary</u> : Increased government spending. Reduce taxation. <u>Contraction</u> : Opposite	• Time delay on effects. • Too little or large a change in consumer confidence. (e.g. Japan in the 90's) • Uncontrollable factors (war)
Monetary Policy	The manipulation of the interest rates, money supply and the exchange rate to influence economic activity and aggregate demand. Also quantitative easing (electronic printing of money)	<u>Expansionary</u> : Increase money supply (quantitative easing) Lower interest rates. <u>Contraction</u> : Opposite (only higher interest rates)	• Time delay • Consumer confidence • Demand could be inelastic • Depends on other policies • Interest rates may be so low that you can't reduce them any more
Supply Side Policy	Policies designed to improve the efficiency of labour and product markets.	• Changing regulations (holiday times, minimum wage, increased educations) • Subsidising new firms • Unemployment benefits • Apprenticeship • Working conditions • Improving labour mobility (geographically and occupationally) • Reducing marginal rates of income tax	• Time delay could be 10, 20 years. • Government who introduces them may not still be in power when the benefits appear.

Protectionism -the protection of domestic industries from international competition

Type of Protectionism	Description
Tariff	Taxes on imported goods. Raises prices on imports in attempt to shift demand from overseas to internal goods
Quota	Limit of supply of a good or service that can be an import or export. Reduces supply of imports and so pushes price
Embargo	A complete ban on an import or export in a country
Subsidies	Loans given by banks or government to companies to encourage expansion
Import Licences	Restrictions imposed on businesses to encourage home produce rather than importing goods