Microeconomics

Student’s Name

Institutional Affiliation

Microeconomics

**Paradox of Thrift**

Household and individual savings are depicted as a net drag to an economy, in the long term, especially following a recession period. As such, I concur with the provided statement on the detrimental nature of personal savings to an economy. The theory is primarily based on the circular flow of an economy that holds that current spending is a significant driver to future spending. Based on the Keynesian theory, when an economic recession or conditions that affect economic conditions occur, individuals and households should ideally increase their spending, and risk-taking, while subsequently reducing overall savings. According to the Keynesians, a recessed economy fails to produce at full capacity, partly attributed to the underutilization of some factors of production (Ireland, 2011). As such, such an economy necessitates more consumption and spending for progressive growth. Therefore, despite the need for increased savings during an economic downtime, it provides a wrong prescription to the economy. Increased savings by households will consequently cause businesses to produce less, which results in a deepened recession, further complicating healthy economic growth and development. This is attributed to a reduction in the money for spending and investment, which are the fuels for economic growth. In the long-term, there will be an increase in unemployment rates and eventually lowered economic growth.

**The objective of Monetary Policy**

A monetary policy constitutes the specific actions that are adopted by the country’s central bank in efforts towards controlling money supply while achieving macroeconomic goals that facilitate sustainable economic development. It is a powerful tool that regulates economic variables, for example, inflation and unemployment. Besides, the economic variables form part of the objectives of monetary policy, which entails managing inflation and unemployment and fostering maintenance of the exchange rates of a nation’s currency. Notably, a low inflation level is considered healthy for an economy. Monetary policies influences unemployment in a country, for instance, an expansionary policy has the potential to reduce unemployment, since increasing money supply promotes activities that collectively result in an expansion of the job market, subsequently causing a reduction in unemployment rates. The policy also regulates rates of exchanges between local and foreign markets (Goodhart, 2013). Monetary policies are made effective through the cause-effect chain and involve transitioning the overall structure of monetary supply, to decrease or increase associated interest rates within a particular economy. Notably, changes in the interest rates affect the aggregate demand, while changes in the resultant demand affect distinct parameters, such as employment, output, and prices. The identified major strengths of a monetary policy encompass speed level and flexibility through which they are implemented. Additionally, the relative independence of the banks that oversee the policy constitutes an additional strength.

**Limits to Long-Term Economic Growth**

Healthy economic growth necessitates a constant increase in the market value of goods and services. However, there are diverse factors that positively, and negatively impact such growth in distinct markets, such as the United States. In the US, the limits are diverse and include the ability of the populace to innovate and be more productive over time, especially for small, and medium-sized enterprises, which form the largest base for the economy. Some countries benefit from low-priced labor, which consequently results in lowered cost of production, ultimately leading to low-priced commodities, as compared to those of the US where prices for labor are relatively low. Besides, the country faces the challenge of constant global climate change, which is largely attributed to activities that are associated with production. It is noteworthy that a majority of the cities in the US that are most productive in distinct sectors, such as manufacturing are located on the coastal sides. Their location predisposes them to great risks, such as rising sea levels, which if uncontrolled remains a prevalent threat in the long-term, for instance, through infrastructural damages caused by natural calamities, and possible displacements. The government can participate in varied activities, such as policy formulations and developing regulations that counter such activities, for instance, those against pollution.

**Course Reflection**

The most imperative principle learned from the course encompasses the demand and supply principle. The principle is widely applied in the contemporary market structure where it primarily determines the prices of goods and services. Market supply defines the total amounts of goods or services that are availed to the consumers in the market (Perkis, 2021). Besides, market demand constitutes the total demand for goods or services by the consumer cohort. In determining the market prices, an interplay between demand and supply is primarily leveraged, for instance, high demand rates, with limited supply results in significantly higher prices for the goods or services by the consumers. On the contrary, low demand and high supply result in market concentration, where consumers have a wide range to select from, which ultimately results in low prices for goods or services. The principle was instrumental in fostering my understanding of the mechanisms used in determining market prices for goods or services at the regional and international levels. However, on some occasions, governments, and jurisdictions may use a combination of such a principle, with other regulatory processes in determining, and setting the prices for goods or services. It is noteworthy that the determined prices are prone to constant change, attributed to the occurring changes at the market level. There are no set regulations that are primarily mandated in regulating such price changes through the identified principle.

References

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