

Business Environment

Learning out come will see students being able to :

- A. C. .2.2- assess the impact of fiscal and monetary policy on business organisation and their activities

Definition

- Fiscal Policy- according to *Concise Encyclopedia of Economics*
- “Fiscal policy is the use of government spending and taxation to influence the economy. When the government decides on the goods and services it purchases, the transfer payments it distributes, or the taxes it collects, it is engaging in fiscal policy.” (econlib.org)

Our working understanding and definition

- Fiscal policies are programs that governments use to influence economic activity. They are centered around taxation and government spending, with a hope that these measures will
- 1. Stimulate Growth
- 2. Keep inflation low
- 3. Stabilise an economy, this is to avoid a premature boom or bust

How are fiscal policies used.

- **Stimulate Growth in a recession**-The government might lower tax rates to try to fuel spending and expand production, if people are paying less taxes this means that they will have more disposable income , that is more money in their pockets to spend. Lets consider the attached article that clearly show fiscal measures at work.
- http://www.jamaicaobserver.com/mobile/news/JLP-would-cut-income-tax_49655

How are fiscal policies used.

■ Keep Inflation Low

- “Inflation is a monetary phenomenon, which is usually measured by changes in Consumer Price Index (CPI). When a persistent increase occurs in the level of prices that lowers the purchasing power of money, we call it inflation.” (economywatch.com)

Cause of inflation

- “When too much money is in circulation in comparison to the production of goods and services, then inflation occurs.” (economywatch.com)
governments may implement special subsidies and interest rate to encourage production , recently Jamaica did this by reducing the loan rate for businesses engaging into productive activities and to companies who listed on the Junior stock exchange, they were given tax breaks for 3 years. All in an effort to spur production, that would effectively keep inflation low.

Monetary Policy

- While Monetary policies aim at achieving results that lead to , economic growth, low inflation and a stable economy. The measures used are primarily focused on the control and movement of money.
- Since we are going to be focused on the control and movement of a country's money supply

We need to look at the country's highest regulator of money "the Central Bank"

The Central Bank

■ **Mechanics of Monetary Policy**

- "A central bank is a "bankers' bank." The customers of the twelve Federal Reserve banks are not ordinary citizens but "banks" in the inclusive sense of all depository institutions—commercial banks, savings banks, savings and loan associations, and credit unions. They are eligible to hold deposits in and borrow from central banks and are subject to the "Bank" reserve requirements and other regulations."(ehow.com)

How are Monetary policies used.

- **Stimulate Growth-** Reduction in lending rates, it is thought that consumer who borrow for goods and services such as cars, vacation/travel, house, ect will avail themselves of loans if loan rates are low leading to and expansion/growth in these business areas. Government can't directly implement monetary policies they influence them through the regulating body in this case the "Central Bank" . The "Central Bank" determines interest rates by the rates they set on reserves and loans to commercial banks, additionally they use moral suasion to get the commercial banks to adjust interest rates.

- Consider the following links

<http://rjrnewsonline.com/business/gradual-reduction-in-interest-rates-goldin>

<http://jis.gov.jm/nht-mortgagors-to-benefit-from-lower-interest-rate/>

How are Monetary policies used

- **Lower Inflation-** Governments tend to do this by fixing exchange rates , to ensure that imported good and services do not rise fast or higher than that can be attained by consumers. Again this activity is carried out via the “central Bank”

- <http://jamaica-gleaner.com/gleaner/20100804/business/business6.html>

How Fiscal Policies impact

- Competitiveness.- depending on the tax measures used this can cause business to contract in sales and production,
- Consumer Demand- Depending on the tax measures used this may cause demand to expand or contract as seen in the case of antigua
- Investor Confidence- May cause investors to want to do business elsewhere, cheaper labour, i.e in the case of business moving to Mexico and India
- Cost of Doing Business.- if government implement a lot of licensing fees and continuous increase in tax rates and insurance this may cause significant increases in prices that may lead to greater inflation

Criticism of fiscal policy

- The government may have poor information about the state of the economy and struggle to have the best information about what the economy needs.
- Time lags. To increase government spending will take time. It could take several months for a government decision to filter through into the economy and actually affect buyer demand. By then it may be too late.
- Crowding out. Some economists argue that expansionary fiscal policy (higher government spending) will not increase buyer demand, because the higher government spending will crowd out the private sector. This is because government have to borrow from the private sector who will then have lower funds for private investment.
- Government spending is inefficient. Free market economists argue that higher government spending will tend to be wasted on inefficient spending projects. Also, it can then be difficult to reduce spending in the future because interest groups put political pressure on maintaining stimulus spending as permanent.
- Higher borrowing costs. Under certain conditions, expansionary fiscal policy can lead to higher bond yields, increasing the cost of debt repayments.
(ehow.com)

Key Terms

- Inflation
- Taxation
- Monetary Policy
- Central Bank
- Commercial Bank
- Exchange rate
- Investor
- Fiscal Policy
- Cooperative
- Budget
- Spending
- Moral Suasion

Additional Reading

- Economics Fifth Edition- Alain Anderton
- Essentials of economics- Sloman and Garratt

Reference

■ ONLINE RESOURCES

- Ecolib.org (2016) – Definition Fiscal and Monetary policy {online}
Available at:
<http://www.econlib.org/library/Topics/College/fiscalpolicy.html>- accessed January 2016
- ehow.com (2016)- How Fiscal Policy Impact economies{Online}
Available at :<http://www.ehow.com/> - accessed January 2016
- Economywatch.com (2011)- Inflation and Fiscal policies
Available at: <http://Economywatch.com/>- accessed January 2016

LIBRARY RESOURCES

http://www.jamaicaobserver.com/mobile/news/JLP-would-cut-income-tax_49655

<http://jamaica-gleaner.com/gleaner/20100804/business/business6.html>

<http://jis.gov.jm/nht-mortgagors-to-benefit-from-lower-interest-rate>.

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