DEPARTMENT OF EDUCATION

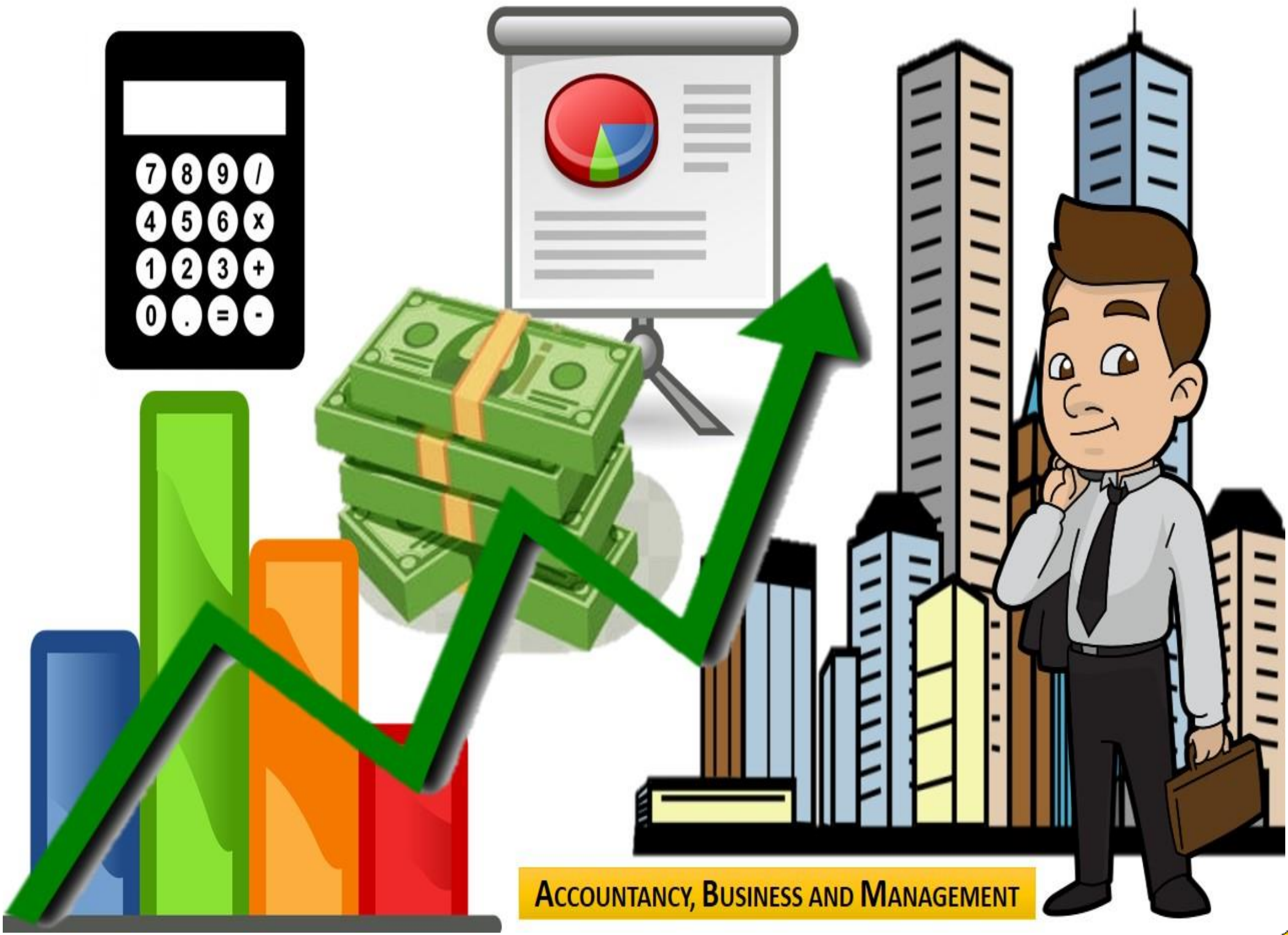
Applied Economics

SENIOR HIGH SCHOOL

Socioeconomic Factors Affecting Business and Industry: Government Policies

Self-Learning Module 12

Quarter 4



Applied Economics
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Self-Learning Module 12

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Socioeconomic Factors Affecting Business and Industry: Government Policies

Introductory Message

For the facilitator:

Welcome to the Senior High School – Applied Economics Self Learning Module on Socioeconomic Factors Affecting Business and Industry: Government Policies!

This Self-Learning Module was collaboratively designed, developed and reviewed by educators from the Schools Division Office of Pasig City headed by its Officer-in-Charge Schools Division Superintendent, Ma. Evalou Concepcion A. Agustin, in partnership with the City Government of Pasig through its mayor, Honorable Victor Ma. Regis N. Sotto. The writers utilized the standards set by the K to 12 Curriculum using the Most Essential Learning Competencies (MELC) in developing this instructional resource.

This learning material hopes to engage the learners in guided and independent learning activities at their own pace and time. Further, this also aims to help learners acquire the needed 21st century skills especially the 5 Cs, namely: Communication, Collaboration, Creativity, Critical Thinking, and Character while taking into consideration their needs and circumstances.

In addition to the material in the main text, you will also see this box in the body of the module:

Notes to the Teacher

This contains helpful tips or strategies that will help you in guiding the learners.

As a facilitator you are expected to orient the learners on how to use this module. You also need to keep track of the learners' progress while allowing them to manage their own learning. Moreover, you are expected to encourage and assist the learners as they do the tasks included in the module.

For the learner:

Welcome to the Applied Economics Self Learning Module on Socioeconomic Factors Affecting Business and Industry: Government Policies!

This module was designed to provide you with fun and meaningful opportunities for guided and independent learning at your own pace and time. You will be enabled to process the contents of the learning material while being an active learner.

This module has the following parts and corresponding icons:

Expectations - This points to the set of knowledge and skills that you will learn after completing the module.

Pretest - This measures your prior knowledge about the lesson at hand.

Recap - This part of the module provides a review of concepts and skills that you already know about a previous lesson.

Lesson - This section discusses the topic in the module.

Activities - This is a set of activities that you need to perform.

Wrap-Up - This section summarizes the concepts and application of the lesson.

Valuing - This part integrates a desirable moral value in the lesson.

Posttest - This measures how much you have learned from the entire module.

EXPECTATIONS

After going through this module, you are expected to:

1. discuss the government policies;
2. identify the various socioeconomic factors affecting business and industry in terms of government policies; and
3. explain the importance of government policies in the business.

PRETEST

Directions: Choose the letter of the best answer and write it on a separate sheet of paper.

1. It is a tool by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

   A. Fiscal Policy

   B. Monetary Policy

   C. Government Policy

   D. None of the above

2. It includes the management of money supply and interest rates, aimed at achieving macroeconomic objectives such as controlling inflation, consumption, growth, and liquidity.

   A. Fiscal Policy

   B. Monetary Policy

   C. Government Policy

   D. None of the above

3. The mandates of this policy are to achieve a stable rise in the gross domestic product, maintain low rates of unemployment, and maintain foreign exchange and inflation rates in a predictable range.

   A. Fiscal Policy

   B. Monetary Policy

   C. Government Policy

   D. None of the above

4. His theories have been used as the basis for fiscal and monetary policy.

   A. Adam Smith

   B. David Ricardo

   C. John Maynard Keynes

   D. Karl Marx

5. This theory states that the government can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending.

   A. Laissez-faire

   B. Invisible Hand

   C. Game Theory

   D. Keynesian economics

RECAP

Word Hunt

Directions: Find the words that are related to production theory in the puzzle below. Encircle the 10 terms in the word search box.

M	A	R	G	I	N	A	L	P	R	O	D	U	C	T
G	W	F	I	X	E	D	I	N	P	U	T	S	L	T
L	O	N	R	Z	P	C	S	Y	T	C	J	P	Q	U
D	V	D	I	S	X	G	I	D	P	Z	M	R	S	P
J	P	K	L	M	Y	H	K	H	N	X	C	O	G	N
L	O	N	G	R	U	N	U	Z	J	H	Z	D	Y	I
S	V	A	R	I	A	B	L	E	I	N	P	U	T	S
H	Z	M	O	Z	H	W	D	C	G	C	W	C	N	P
O	K	Q	P	U	C	Q	V	X	B	K	U	T	H	Y
R	X	O	J	A	T	Y	S	Q	E	M	L	I	N	F
T	Q	V	H	M	W	P	H	B	S	K	C	O	X	H
R	I	F	Y	B	X	T	U	M	Y	Q	Y	N	L	Q
U	O	S	M	F	L	J	V	T	O	P	U	X	J	P
N	C	B	V	B	K	I	G	U	Z	W	V	I	W	M
A	V	E	R	A	G	E	P	R	O	D	U	C	T	K

LESSON

Since the country runs a mixed economy, government intervention is needed to achieve the economic goals. The government uses two tools in addressing the economic and social problems in the country, these are monetary and fiscal policy. *Monetary policy* refers to the actions of central banks to achieve macroeconomic policy objectives such as price stability, full employment, and stable economic growth. *Fiscal policy* refers to the tax and spending policies of the government. Fiscal policy decisions are determined by the Congress and the Administration; the Banko Sentral ng Pilipinas plays no role in determining fiscal policy.

Fiscal Policy

Fiscal policy is a tool by which a government adjusts its spending levels and tax rates to monitor and influence the nation's economy. Fiscal policy is based on the theories of British economist John Maynard Keynes, known as *Keynesian Economics*. This theory states that the government can influence macroeconomic productivity levels by increasing or decreasing the tax levels and public spending. This can influence the curbs of inflation, increases employment, and maintains a healthy value of money. Fiscal policy plays a very important role in managing the country's economy.

The enactment of Tax Reform for Acceleration and Inclusion (TRAIN) is one of the examples of fiscal policy. The TRAIN Law aims to make the country's tax system simpler, fairer, and more efficient to promote investments, create jobs, and reduce poverty. The reform includes amendments on the personal income tax, passive income for both individuals and corporations, estate tax, donor's tax, value-added tax (VAT), excise tax, documentary stamp tax, and tax administration, among others.

The idea is to find a balance between tax rates and public spending. For example, stimulating a stagnant economy by increasing spending or lowering taxes, also known as *expansionary fiscal policy*, runs the risk of causing inflation to rise. This is because an increase in the amount of money in the economy, followed by an increase in consumer demand, will result in a decrease in the value of money. It means that it would take more money to buy something that has not changed in value.

Let's say an economy has slowed down, the unemployment levels are up, the consumer spending is down, and the businesses are not making substantial profits. The government may decide to fuel the economy's engine by decreasing taxation, which signals the consumers to spend more while the government increases also their spending in the form of buying services from the market such as building roads or schools. By paying for such services, the government creates jobs and wages that are in turn pumped into the economy. Pumping money into the economy by decreasing taxes and increasing government spending is known as *pump priming*.

With more money in the economy and fewer taxes to pay, consumer demand for goods and services increases. This, in turn, rekindles businesses and turns the cycle from stagnant to active. If there are no reins on this process, the increase in economic productivity can cross over a very fine line and lead to too much money in the market. This excess in supply decreases the value of money while pushing up prices (because of the increase in demand for consumer products). Hence, inflation exceeds the reasonable level. For this reason, fine-tuning the economy through fiscal policy alone can be a difficult, if not improbable, means to reach economic goals.

Monetary Policy

Monetary policy refers to the actions undertaken by a nation's central bank to control the money supply to achieve macroeconomic goals that promote sustainable economic growth. Monetary policy consists of the process of drafting, announcing, and implementing the plan of actions taken by the central bank, currency board, or other competent monetary authority of a country that controls the quantity of money in an economy and the channels by which new money is supplied. Monetary policy consists of management of money supply and interest rates, aimed at achieving macroeconomic objectives such as controlling inflation, consumption, growth, and liquidity. These are achieved by actions such as modifying the interest rate, buying or selling government bonds, regulating foreign exchange rates, and changing the amount of money in the banks are required to maintain as *reserves*.

Economists, analysts, investors, and financial experts across the globe eagerly await the monetary policy reports and outcome of the meetings involving monetary policy decision-making. Such developments have a long-lasting impact on the overall economy, as well as on specific industry sector or market.

Monetary policy is formulated based on the inputs gathered from various sources. For instance, the monetary authority may look at macroeconomic numbers like GDP and inflation, industry/sector-specific growth rates and associated figures, geopolitical developments in the international markets (like oil embargo or trade tariffs), concerns raised by groups representing industries and businesses, survey results from organizations of repute, and inputs from the government and other credible sources.

Broadly speaking, monetary policies can be categorized as expansionary or contractionary. If a country is facing a high unemployment rate during a slowdown or a recession, the monetary authority can opt for an *expansionary policy* aimed to increase economic performance and expanding economic activity. As a part of expansionary monetary policy, the monetary authority often lowers the interest rates through various measures that make money-saving relatively unfavorable and promotes spending. It leads to increased money supply in the market, with the hope of boosting investment and consumer spending. Lower interest rates mean that businesses and individuals can take loans on convenient terms to expand productive activities and spend more on big-ticket consumer goods. An example of this expansionary approach is low to zero interest rates maintained by many leading economies across the globe since the 2008 financial crisis.

However, the increased money supply can lead to higher inflation, raising the cost of living and the cost of doing business. *Contractionary monetary policy*, by increasing interest rates and slowing the growth of the money supply, aims to bring down inflation. This can slow economic growth and increase unemployment but is often required to tame inflation.

Significance of the Government Policies in Business and Industry

Both fiscal and monetary policy plays a large role in managing the economy and both have direct and indirect impacts on household finances and business operation. Fiscal policy involves tax and spending decisions set by the government and will impact individuals and businesses. If the government wants to spend more, they will hire people and also tap businesses to carry out the projects. Moreover, if the government spends more on infrastructure, specifically in paving roads, transportation of goods can be fast and on time. Monetary policy is set by the central bank and can boost consumer spending through lower interest rates that make borrowing cheaper on everything from credit cards to mortgages. It also helps businesses to lend money for business expansion or additional capital for business operations.

ACTIVITIES

Activity: Effects of Government Policies

Directions: Identify the appropriate government policy should implement in each economic situation below and discuss its possible effects or results.

Economic Situation	Government Policy	Possible Effects or Results
1. Business closure due to Covid-19		
2. Strengthening the microbusinesses.		
3. Maintain the prices of medical supplies and equipment related to Covid-19.		
4. Many people were jobless due to pandemic.		

WRAP-UP

To summarize what you have learned in the lesson, answer the following questions:

1. What are the government policies?
2. What are the factors affecting business and industry in terms of government policies?
3. What are the importance of government policies in business?

VALUING

Reflect on this!

"Governments will always play a huge part in solving big problems. They set public policy and are uniquely able to provide the resources to make sure solutions reach everyone who needs them. They also fund basic research, which is a crucial component of the innovation that improves life for everyone."

— Bill Gates

POSTTEST

Directions: Read each statement carefully. Write **F** if the statement refers to fiscal policy, write **M** if the statement relates to monetary policy.

____________1. The idea is to find a balance between tax rates and public spending.

____________2. The policy is to build a new bridge so it will give work and more income to hundreds of construction workers.

____________3. Lower interest rates mean that businesses and individuals can take loans on convenient terms to expand productive activities and spend more on big-ticket consumer goods.

____________4. When a government decides to adjust its spending, its policy may affect only a specific group of people.

____________5. Buying and selling of short term bonds on the open market.

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KEY TO CORRECTION

POSTTEST:	RECAP:	PRETEST
1. F	1. PRODUCTION	1. A
2. F	2. OUTPUT	2. B
3. M	3. INPUT	3. B
4. F	4. PRODUCTION FUNCTION	4. C
5. M	5. FIXED INPUTS	5. D
	6. VARIABLE INPUTS	
	7. SHORT-RUN	
	8. LONG-RUN	
	9. MARGINAL PRODUCT	
	10. AVERAGE PRODUCT	

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