ECONOMICS I

states & monetary policy

approach to economics debates

- econ debates are not that scary - you mainly need to be able to explain the basic mechanisms well without jargon
- analysis is often very concrete - easy to be sure you explained it well
- **specifically this week:** a lot of debates about recessions boil down to actor analysis rather than difficult technical terms

monetary supply i

- why does money matter?
  - no value of money in and of itself - we like money because we can purchase things with it
- **inflation and deflation**
  - how inflation happens?
    - people have more money → want to buy more things → companies want to increase their production and therefore need to hire people → workers get to ask for higher wages → companies need to rise prices
    - this is not a bad thing (prices rise but salaries rise too) → inflation is targeted to 2%
    - when can inflation be bad?
      - **hyperinflation:** inflation rises so quickly that money is rapidly losing value → people cannot save and have an incentive to spend money fast (loss of financial security, good shortages, but also cyclical)

monetary supply ii

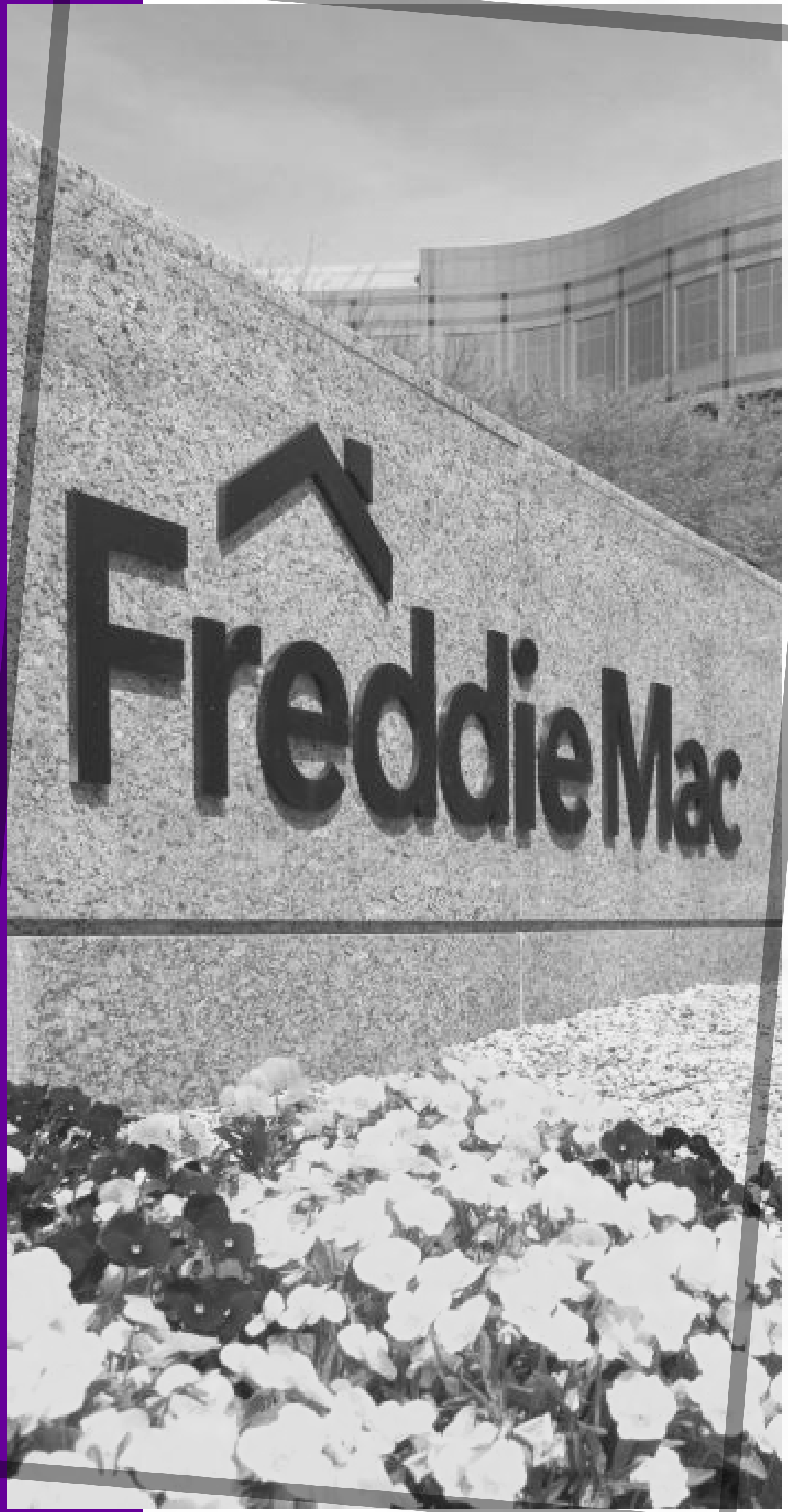
- checks on inflation
  - automation (companies need to hire less people to expand their operations)
  - size of the labour pool (can hire a lot of people for cheap through outsourcing)
- how does deflation happen?
  - loss of confidence in the economy → people stop spending and start saving → companies lower prices to incentivise people to spend → but people expect this to continue so they still do not spend → deflationary spiral
  - why is this so bad?
    - companies cannot sell things → now they are in debt → have to fire their employees → once people are unemployed, they spend even less

Recessions

- what are they?
  - periods of declining economic activity (people buying and selling goods, employing people, etc.) across an entire economy
- why do they happen?
  - financial crisis (an asset suddenly devalues - e.g. bubbles)
  - adverse supply shock (important good vanishes - problematic because interconnectedness)
  - natural disaster (earthquake, covid)
  - all accompanied with lack of confidence

In times of economic crises, THBT the government should withhold information that is likely to damage market confidence.

- why are they bad?
  - deflationary spirals
  - bank runs (fractional banking → banks have money in loans or invested in stocks)



responses to recessions i - governments

- bailouts - government pays out companies' debt when it would otherwise go bankrupt - only essential ones

- bail-ins - an arrangement with creditors to cancel some of the debt that is owned
  - bailouts can cause risky behaviour, bail-ins can cause loss of confidence with investors → bailouts are good in one-off events like covid and bail-ins are good when the recession has been caused by irresponsible investing

THBT when systemically important financial institutions are in need of financial assistance during recessions, creditors, rather than the government, should be liable

- fiscal stimulus - either lowering taxes, or increasing government investment in certain industries
  - risk of liquidity trap

responses to recessions ii - central banks

- what is a central bank?
  - a (usually) independent institution that regulates money supply, and setts interest rates
- how can it respond to crises?
  - money printer go **brrrr** (but not really)
  - quantitative easing
    - government bonds - government borrows money, promising to pay back with an interest
    - central banks buys bonds off people → cash influx
  - interest rate targeting (monetary stimulus)
    - if you lower the interest rate
      - people want to borrow more (or pay less on existing debt)
      - people want to save less
        - but risk of liquidity trap
  - monetisation - buying bonds off of government

responses to recession iii

- **preventing** loss of confidence pre-emptively
  - a lot of recessions are caused by a loss of confidence (people get scared and start saving)
  - if people have a confidence that the government will take some action, they will not become scared in the first place
- **application to motions**
  - In times of economic crisis, THW implement UBI
  - THW suspend trade unions and labour protection laws in times of economic crisis
  - THBT all governments should designate and publicly announce a list of financial institutions that they would bail out in the event of a crisis