Implementing Policy – Monetary Policy

Key Term	Definition
Supply-side policies	A range of measures intended to have a direct impact on long-run aggregate supply and the potential capacity output of the economy
Market-based supply-side policies	Policies that rely on allowing markets to work more freely and providing incentives for enterprise and initiative
Interventionist supply-side policies	Policies by which the government intervenes to stimulate aggregate supply
Privatisation	The process of transferring a business, industry or service from public sector to private sector ownership.
Deregulation	The reduction or elimination of government power in a particular industry.
Subsidy	A payment issued by the government or pubic body to reduce the costs of production or promote a social good
Migration	The movement of people from one place to another to live.
Immigration	The movement of people into one country from another

What are supply-side policies?

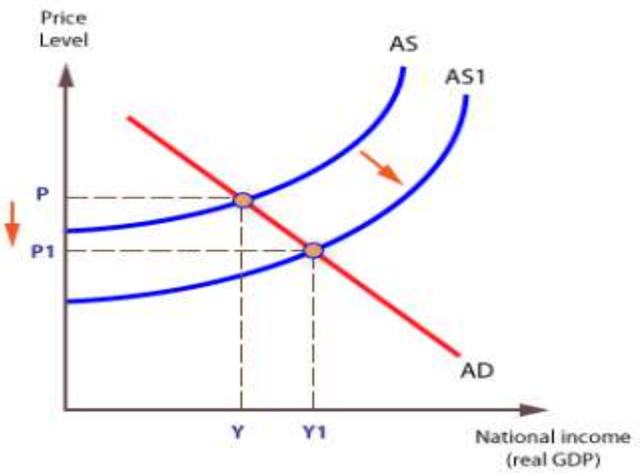
Main Objectives of Supply-Side Policies

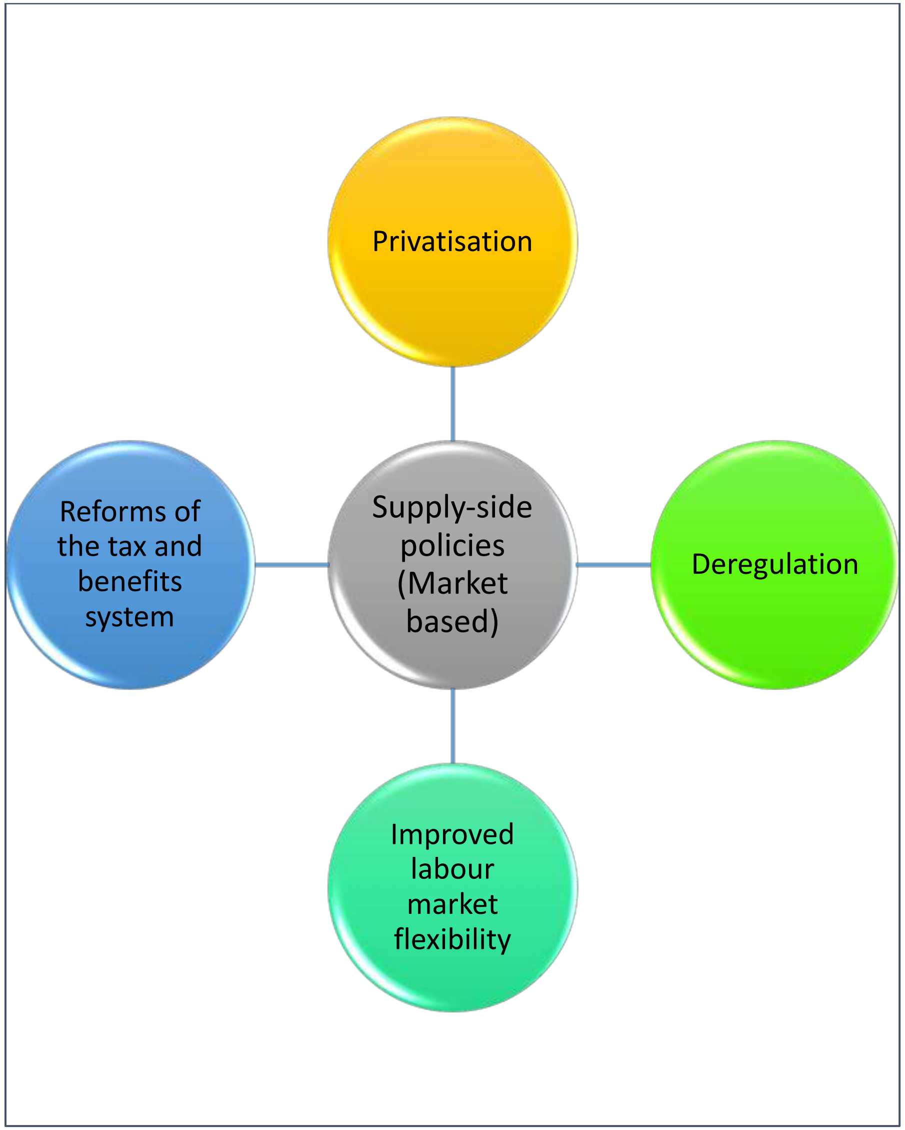
Key concepts to focus on when discussing S-SPs are incentives, enterprise, technology, mobility, flexibility and efficiency

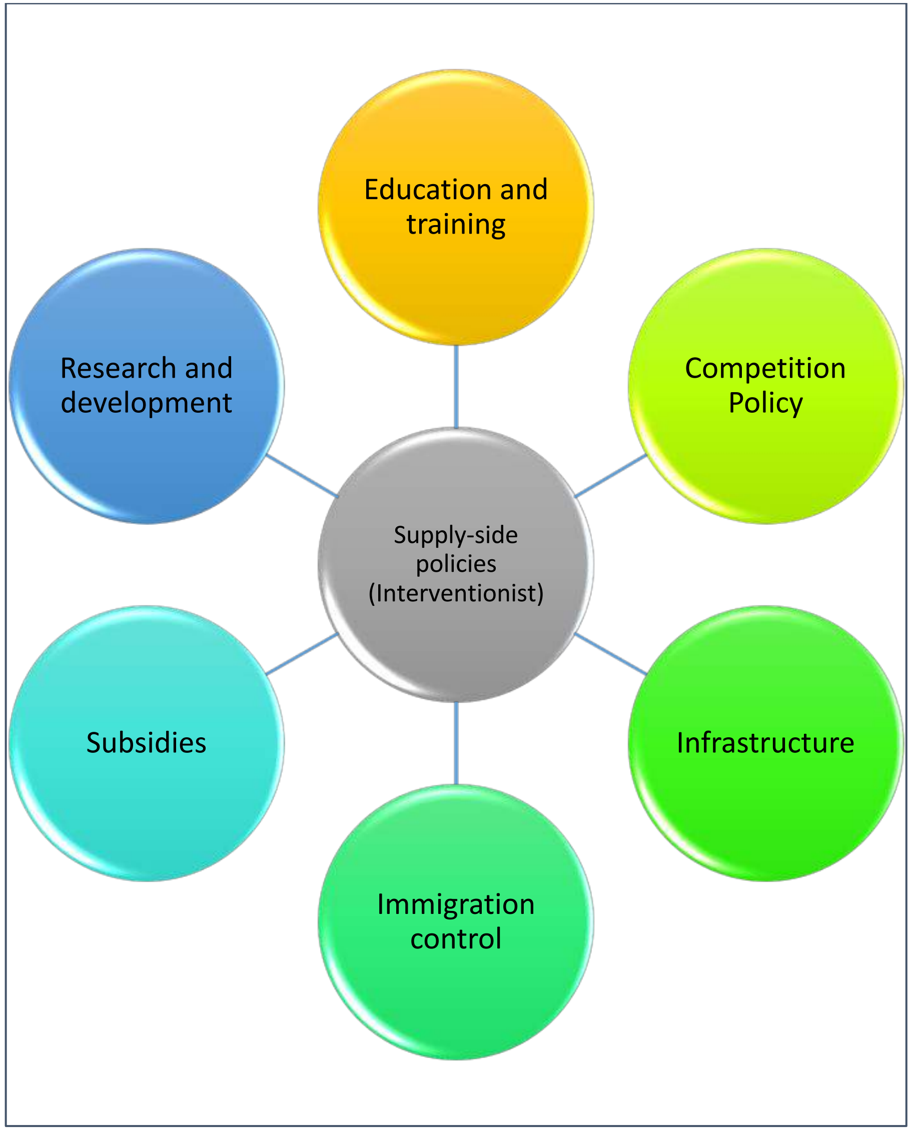
1. **Improve incentives** to look for work and invest in people's skills
2. Increase labour and capital **productivity**
3. Increase occupational and geographical **mobility of labour** to help reduce the rate of unemployment
4. Increase **investment** and **research and development spending**
5. **Promote more competition** and stimulate a faster pace of **invention and innovation** to improve **competitiveness**
6. Provide a strong platform for **sustained non-inflationary growth**
7. Encourage the **start-up and expansion of new businesses** / enterprises especially those with export potential
8. Improve the trend rate of growth of real GDP to help support improved living standards and regional economic balance

The effects of supply-side policy

Successful supply-side policy will shift the AS curve to the right.




Privatisation
Reforms of the tax and benefits system
Supply-side policies (Market based)
Deregulation
Improved labour market flexibility


Education and training
Research and development
Competition Policy
Supply-side policies (Interventionist)
Subsidies
Infrastructure
Immigration control

Effectiveness of supply-side policies (AO4)

In general, a stronger supply-side performance allows a government to meet more of the key macro objectives

1. Achieve a sustained improvement in the possible trade-off between inflation and unemployment (see Phillips Curve)
2. Be more flexible in response to external demand and supply-side shocks such as rising energy prices
3. Raise living standards through stronger long term economic growth / an increase in underlying trend rate of growth
4. Reduce unemployment by lowering the natural rate of unemployment (less frictional & structural unemployment)
5. Improve competitiveness in global markets and achieve a stronger balance of trade in goods and services

Effectiveness of supply-side policies (AO4)

1. Supply-side policies can have long time lags but this depends on the type of policy and also the country involved
2. The level and growth of aggregate demand is also important in making business investment and innovation viable – this is a valid Keynesian issue – demand helps to utilise extra supply
3. Some supply-side policies (e.g. cutting higher-rate income taxes) might lead to greater inequalities of income & wealth – again it depends on which taxes are changed and by how much
4. State intervention to "pick winners" in different industries/sectors may be ineffective – i.e. are risks of government failure
5. Sustainability issues arise if policies raise a country's long term growth rate – leading to increased externalities such as pollution – although some supply policies directly address this!
6. Supply-side policies look to achieve relative improvements e.g. In productivity – but other countries will be making gains too!

Effectiveness of supply-side policies (AO4)

Supply-side policies can have a powerful effect on economic performance – but be aware of limitations and disadvantages

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4. State intervention to "pick winners" in different industries may be ineffective – there are risks of government failure
5. Sustainability issues if policies aim to raise a country's long term growth rate – leading to increased externalities such as pollution
6. Supply-side policies look to achieve relative improvements e.g. In productivity – but other countries will be making gains too