"Assess the effectiveness of macroeconomic policies in achieving economic objectives in the Australian economy."

Macroeconomic policies, fiscal and monetary are policies set by the federal government and the governments principal banker and adviser the RBA respectively. These policies deal with the demand side of the economy by influencing certain behaviours with respect to consumption, investment, exports and imports. This is done in order to achieve economic objectives of higher employment, low inflation, external stability, a high quality of life and sustainable economic growth. Demand management policies have proven to be effective, especially in recent times, most notably during the course of the 2008 GFC where counter cyclical fiscal and monetary policy kept the Australian economy out of serious recession.

Monetary is constantly altered in order to smoothen out the Australian business cycle. Monetary is altered through the process's of domestic market operations (DMO's) which its transmission effects influence economic decisions in the economy.

If the RBA aims to loosen or ease the cash rate then it will purchase second hand government securities (CGS) from banks, depositing cash in they're exchange settlement accounts (ESA's). This increases the supply of loan able funds available to financial institutions, putting downward pressure on the cash rate, as less money is demanded in the short-term money market. A reduction in the cash rate is usually followed by a fall in interest rates, which stimulates expenditure as the cost of borrowing lessens.

(diagram of decrease in the cash rate).

Similarly if the RBA wanted to tighten monetary policy they would sell CGS to banks, decreasing liquidity in their ESA's and causing a rise in interest rates, dampening aggregate demand in the economy. Tightening cycles are effective in keeping inflation with in target band of 2-3%.

Fiscal policy is conducted by the government purposefully changing the level of expenditure in the economy. Discretionary or structural changes of fiscal policy are made through by altering the budget. The budget can either be Concretionary, moving towards a budget surplus, or expansionary moving in the direction of a budget deficit. Non-discretionary fiscal policy occurs through changes in automatic stabilisers, these automatic stabilisers being the level of income tax and welfare payments to the unemployed. Fiscal policy is linked with microeconomic policy as it is able to expand aggregate supply as well as aggregate demand through targeting to areas that will do this in the long term such as running training programs in order to improve allocative and technical efficiency.

The effectiveness of monetary policy can be seen through its responses to recent situations. In 2007-08 unemployment was low at 4.2%, inflation had reached 5% due to relatively high growth of 4%. Monetary policy was tightened to a cash rate of 7.25% in order to maintain greater price stability. This was effective as inflation was knocked back to 3.25%.

Furthermore, the effectiveness of both monetary and fiscal policy can be shown from strategies used throughout the 2008-09 period. Unemployment had risen dramatically to 5.8% due to the global influences of the GFC on the Australian domestic economy. Emergency easing was used by the RBA as interest rate were cut down to 3%. The government utilised Fiscal policy by giving $10bn cash to households as well as $42bn medium term investment in infrastructure to stimulate the economy sustainably and lower capacity constraints. This added a projected 1% of growth buffer to the Australian economy and unemployment lowered to 5.2% as an estimated 210000 jobs were saved by this action. The cash rate was than eased to 4.25% in order to ensure growth became more sustainable. This process highlights the possibility for effective use of macroeconomic policies especially once combined.

More recently, expansionary policy has been applied as inflation is directly in the inflationary target band at 2.4% allowing for greater economic stimulation. Unemployment rose once more to a relatively high 5.7%. The RBA decided to drop interest rates to an all time low for the last decade at 2.5% to counter act below trend growth.

Despite the past successes of macroeconomic policy, monetary and fiscal, they are not without there limitations. Monetary policy has a 6-18 month time lag between time of implementation and time of effect. Loosening the cash rate is known to be longer to take effect than tightening as consumers are easily discouraged to spend and more difficulty encouraged to spend. Due to this time lag monetary policy must be used pre-emptively. This in itself is another limitation, as the RBA must skilfully analyse economic trends and data in order to make an educated prediction of the future. Monetary policy is also a blunt tool, delivering economy wide effects. The RBA is unable fine tune the economy with extreme precision but rather influence the general business cycle. Fiscal policy also has limitations; firstly its structural impacts produce benefits in the long term and may harm the economy in the short term such as an increase in unemployment. Secondly, fiscal policy although having a shorter time lag between time of implementation and time of effect when compared to monetary policy. However fiscal policy requires a more difficult process of implementation as it takes time for the bill of the policy to pass through parliament.

Monetary and Fiscal policy have proved to be effective macroeconomic policy tools in addressing the economic objectives of low unemployment, economic growth and low inflation, especially in the past half of the decade.

FEEDBACK FOR ESSAY – ECONOMICS BY [redacted]

MARK: 16/20

GENERAL COMMENTS:

Hi [redacted]

A very strong extended response that you should be proud of.

There was nothing in terms of actual content that I could argue with, not did I see anything lacking.

You include a large range of statistics which are very valuable.

Feedback to improve:

Answer the question in your opening paragraph - state how effective the polices are. You only answer it on the second page, and this is where your essay earns the most marks - make it easy for your marker to give you these marks early.

In addition, make your introduction more assertive: eg.

"Macroeconomic policies such as fiscal and monetary policies have a counter-cyclical role to minimise short-term fluctuations in the business cycle so that the economy can experience economic growth and internal balance in the short to medium term. These policies have been particularly effective in achieving the economic objectives and are the major reason Australia has successfully sustained 17 years of consecutive and uninterrupted economic growth averaging 3.6% per annum between 1991 and 2008, well above the 2.7% OECD average.

Make it as easy as possible to get the marks from your marker and a strong intro makes the best impression.

Whilst this isn't English, there are a number of words and phrases that do not make sense. Just be aware that this does affect your overall mark, and probably cost you 1-2 marks in this submission.

Make these few amendments and you will be looking at a band 6 response.

Best of luck in your HSC.