Part One: Key Principles

1.) Employment and Unemployment/Short-Run Fluctuations and Long-Run Economic Growth

In the Tedtalk, “Who Controls the World” James B Glattfelder explains that his goal is to provide us with a more detailed, give us more pieces of information knowledge of the people and connections that govern our global economy. He does this not to promote an idea, but to make the world a better place. He explores the complexity, or how a linked system, such as a flock of birds, is more than the sum of its parts. And, as it turns out, complexity theory may disclose a lot about how the global economy operates. He also presents a breakthrough analysis of how power flows across the global economy and how the concentration of power in the hands of a surprisingly tiny number leaves us all vulnerable.

In “HBO Too Big To Fail: Opening the Vault”, during the Great Recession a rising number of U.S. customers defaulted on their mortgage loans, U.S. banks, as well as banks in other countries, lost money on the loans. Banks stopped lending to one another, making it more difficult for consumers and companies to obtain credit.

2.) Fiscal Policy, Monetary Policy and Okun’s Law

Okun's law examines the statistical link between a country's unemployment rate and its pace of economic growth. According to Okun's law, a country's GDP must expand at a pace of approximately 4% for one year in order to produce a 1% drop in the unemployment rate.

The extent of the tax reduction, the marginal propensity to consume, and the crowding out effect can all have an impact on the multiplier effect of a tax cut. The crowding out effect happens when greater income leads to increased demand for money, which causes interest rates to rise.

A self-fulfilling prophecy is a good or negative expectation about something or someone that can influence a person's conduct in such a manner that those expectations become a reality. So if Investors buy fewer stocks if they believe the stock market will fall.

https://www.investopedia.com/articles/economics/12/okuns-law.asp
Furhmann, Ryan. “Okun’s Law: Economic Growth and Unemployment”. November 03, 2020. Reviewed by TOBY WALTERS

Part Two: Key Concepts

1.) Fiscal Policy and Monetary Policy

Automatic stabilizers are restricted in that they only manage a country's aggregate demand. Other, more specialized aspects of the economy can be targeted by discretionary measures. Prior to economic booms and collapses, automatic stabilizers occur. Discretionary policies are implemented in reaction to economic developments.

The multiplier effect refers to the idea that government expenditure designed to promote the economy produces increases in private spending, which stimulates the economy even more. In essence, the argument maintains that government expenditure provides greater money to households, which leads to increased consumer spending.

2.) Fiscal Policy and Monetary Policy

The US government abandoned the budget balance in favor of a far more aggressive spending agenda. During The Great Recession, the level of government spending remains constant, while taxation rates are cut. In addition, tax rates are held constant while government spending is raised. The use of government spending and taxation impact the economy, so fiscal policy is typically used by governments to foster robust and sustained growth while also reducing poverty.

Governments have taken decisive steps to prevent and minimize the virus's spread, as well as to limit the negative effects on their populations and economy. Countries are assisting firms in staying afloat, assisting households, and assisting in the preservation of employment through a variety of approaches. Where the recovery is weak, fiscal action can help to boost it. Multilateral cooperation will be critical in this scenario for recovery and strengthening the global economy's resilience to future shocks. According to the study, poor nations would require special assistance, such as international cooperation, financial assistance, and the adoption of tax regulations that benefit all countries. The government's finances will ultimately need to be repaired.

By controlling the money supply, central banks can indirectly target activity.

One potential issue with expansionary fiscal policy is that it will raise the amount of a government's budget deficit. Higher borrowing may result in financial crowding out. Increased deficits may induce markets to fear debt default, raising interest rates on government debt. Excessive inflation and overheated economies are negatives and unanticipated consequences of expansionary policies.

Part Three: Formulas and Graphs

1a.) Labor Demand and Equilibrium, Downward Rigid Wages

When wages are downward rigid, a leftward shift of the labor demand curve leads to a sharp decrease in equilibrium, Point 3.

In the presence of flexible wages, a leftward shift of the demand curve would reduce the equilibrium wage and employment to this point.

However, in the absence of flexible wages, a deeper recession has many workers who would like to work at the market wage but can’t find a job because of the rigid wage.

Firms are unwilling or unable to cut wages because of contractual restrictions or because of moral problems that would result from falling wages.

As a result, the firm ends up laying off more workers than they would have if wages were downward flexible.

1b.) Expansionary Fiscal Policy

When Aggregate Price Levels is downward rigid, a leftward shift of the Recessionary Gap Real GDP demand curve leads to a sharp decrease in equilibrium.

The original equilibrium (E_0) represents a recession, occurring at a quantity of output (Yr) below potential GDP

An expansionary fiscal policy can move the economy to a new equilibrium output of E_1 at the level of potential GDP.

Since the economy was originally producing below potential GDP, an inflationary increase in the price level from P_0 to P_1 that results should be relatively small.

As a result, the firm ends up laying off more workers than they would have if wages were downward flexible.

1c.) Monetary Policy, Flexible Wages

During a recession, the labor demand curve shifts leftward and the new equilibrium is at E_1.

Countercyclical monetary policy can partially reverse this situation by shifting the labor demand curve rightward and the new equilibrium is at $E_{2.}$

With flexible wages, the equilibrium moves from E_1 to E_2. The rightward shift in the labor demand curve illustrates an increase in wages and employment.

Part Four: Analytic Analysis

The true cost of any decision is an opportunity cost because in life you have a limited number of options to select from, and every decision requires you to give up something you love to gain what you need or want. For example, I'm the type of person that would waste at least 10 dollars in Starbucks all most every morning and order takeouts. But, I want to buy my dream car, which means I'll have to give up some of my favorite things, such as Starbucks and takeout, in order to save enough money to buy my dream car.

Supply and Demand determine the cost of goods, as well as the quantities produced and consumed. Consumers will pay more for goods and services that are more valuable to them. A certain number of products or an item or service that customers are willing to buy over a defined time period at a certain price. Furthermore, variables that might cause the demand curve for products and services to shift, resulting in varying quantities of demand at various prices. Markets utilize prices as signals to allocate resources to the most beneficial uses.

GDP is the measure of economic production not the increase of the economy's well-being because GDP values products and services based on market pricing, and it ignores the worth of nearly all activity that occurs outside of markets. National income monitors a country's economic activity and provides information about how the economy is functioning, by domestic corporations, salaries paid, and sales and income tax data for businesses, etc. National income includes net earned foreign income and quantifies the net worth of products and services generated in a country over a year.

1.) Analytic Analysis

Discretionary interventions can solve economic flaws that are not directly related to aggregate demand. Government policy that changes government spending or taxation is referred to as discretionary fiscal policy. Its goal is to expand or contract the economy as needed. Stabilization policy aims to keep an economy on track by raising or lowering interest rates as appropriate. Interest rates are raised to discourage borrowing for consumption and decreased to encourage borrowing for consumption.

The occurrence of delays in the impacts of monetary and fiscal policy suggests that these policy measures may be out of sequence with the economy; that is, there is a temporal delay between the policy's execution and actual evidence of affecting the economy.

The Great Recession and the COVID Stimulus is one of the most important histories that no one will forget because unemployment insurance claims are at an all-time high, and many economists believe the country has already entered an economic downturn.