Impact of International Economic Policies on National Level Business

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Abstract:

This research defines how economists apply Gross Domestic Product to observe the national income in a country. This research will also identify the problems related with GDP to observe the national wealth and how can these issues be controlled. This research will also describe how a country can implement monetary and fiscal policy to impact the level of national income in the financial system in the short run. National income is the complete value of national output of all services and goods prepared in one year. Considering how national income is established is the beginning level for macroeconomics. This link is demonstrated in the identity of national income, where the amount obtained as national income is suitable to the amount spent as national expenses, which is also suitable to what is prepared as national output.

Introduction:

Different measures of national income and output are applied in economics to expect total financial activity in a nation, comprising Gross Domestic Product (GDP), Gross National Product (GNP), and Net National Income (NNI). Different indicators are there for an economy. The best information is in the total annual production of services and goods in an economy, also recognized as aggregate output, which is observed through the Gross Domestic Product, GDP (Kendrick, 2010). National income includes the value of all goods and services produced or generated in the country in a given period (usually a year), plus any income received from abroad by residents in the country minus expenses related to non-residents (Ron, 2013). Earlier, it was called the National Income and Gross National Product (GNP). In poor and developing countries GDP is higher than the national income, because usually their foreign residents do not report them as much income as those who send their headquarters transnational posted to territory.

Measurement of GDP:

The difference between the services and goods made by an economy prevent the product is posted in units or global physical quantities, therefore the measurement of aggregate output can only be done in monetary terms, calculating the heterogeneous set of domestic production based on market prices achieved by the various goods and services that were developed by the productive economy (Mankiw, 2008).

Only the value of goods and services produced in the period in which the measurement is commonly performed one year is posted. In each year of measurement of GDP, this year' production is transferred by producers to consumer units, or remain as ending stocks in different production companies. In the same year transactions used and produced in previous years goods are made, however as GDP only measures the flow of production of the year and not the flow of expenditures, sales of used goods are not accounted for, since that would be doubly counted (Ron, 2013).

Indications of Current Market Prices:

GDP valued assets at market prices i.e. the price at which the product or service that is a reflection of the cost and value of the goods and services produced and includes indirect taxes such as VAT which is not the same is sold price received by the seller of the goods (Roger, 2013).

Objectives of Measurement:

It searches through the measurement of GDP have an indicator that achieves a single number expressing the level of activity in all sectors of the economy, including the maximum amount of information about the performance of the economy (Bhardwaj, 2007). National income and gross domestic product measures the output level of the economy in a given year and explain the reasons for that are in one or another level, also to compare several years, to define it is increasing, decreasing or is in a process of stagnation, based on which, governments design and implement economic policies. On the other hand, allows comparison between different countries and at different periods (Bradley, 2006).

Sales of second hand goods are excluded from existing GDP because they represent actual production or result in double counting, however, sales agents' commissions are recorded if any, as a power supply, or the value repairs or other services offered for goods already purchased (Mankiw, 2008). Furthermore, since the GDP is the value of the output of a current period, thus excluding the value of transactions unrelated to production and is strictly financial transactions.

Domestic Product:

If the inner product is discounted corresponding to the output of foreigners in the country side and is added the portion produced by nationals abroad, is called Domestic Product (Bhardwaj, 2007). Unlike the gross domestic product accounts for the output produced within the country, GNP measures the output produced by factors of production owned by residents of the country. When GNP is greater than GDP, means that domestic production factors operating abroad earn more than external factors of production operating in the national economy, otherwise the GDP is greater than the GNP, indicating that what they produce is higher in the foreign country (Roger, 2013).

Usually, statistics of developed countries mainly refer to GNP as an indicator of the economy because they possess substantial foreign investments that generate significant revenue, while the underdeveloped countries by their reduced beyond its borders activity most frequently used GDP refer to the performance of their economies, however both one and the other calculations of national product and domestic product are made (Ron, 2013).

Growth Rate of GDP:

The main indicator to refer to the performance of an economy is the growth rate of GDP year to year, being that includes as much information on the performance of the economy and allows comparison between different economies countries (Alan, and Stuart, 2008). Then the growth rate of the economy is the rate at which GDP grows in real terms. As stated above, comparisons between periods of GDP or GNP should be handled in constant values to determine the real output growth; otherwise much of the increase may simply be a consequence of the rise of prices. The change in real GDP growth is caused by the production to vary the amount of resources available to the economy or the economically active population factors also varies because the same efficiency due mainly to the implementation of science and technology to the production of a country knowledge. Similarly, a reduction in employment is reflected in a fall in GDP or GNP. How much growth has occurred in recent years in a country and as has been its dynamic economic growth compared to other countries? Economic growth in an economy occurs when there is a continuous upward trend in real GDP, reflecting the expansion of the economy over time and recorded through the rate of growth (Mankiw, 2008).

Over the last couple of decades have configured a new economists regarding how governments should use monetary policy either from a Keynesian or monetarist approach. According to these approaches, monetary policy should aim to given inflation target as a minimum strategy for the economy (Irvin, 2010). However, the assumption that there would be some degree of inflexibility in the short term would recommend using this policy accommodate the real impact of unanticipated aggregate shocks. Essential element within this consensus is hypothesized money demand, leading design monetary policy focus on the movement of interest rates in the short term (Bradley, 2006).

The purpose of this research is to conduct a critical review of the monetary policy to analyse whether the interest rate may be an optimal tool for the proper development of the economy and assume time to drive the growth of the same. Economic Indicator is the best way to form a quantifiable or measurable if a country is improving or not by progressive and sustained increase in production levels, an idea must also consider other indicators such as changes in inflation, which in turn determines the growth in real terms of production, with the inclusion of a third variable that can express the extent to which the economy of a country is related to the other countries, this through exports (Mankiw, 2008). A thriving economy is clearly an economy that has a high output growth, low unemployment and low inflation.

The Gross Domestic Product (GDP) is the main indicator of aggregate economic activity and the most important macroeconomic variable. The GDP is a statistical indicator that attempts to measure the total value of final goods and services produced within the geographical boundaries of an economy during a given period of time. It is calculated by adding the market value of all final goods and millions of services that economy, in an appropriate manner (Bhardwaj, 2007).

The welfare and quality of life improve when the country uses its (natural, human and capital) resources efficiently. GDP is precisely used as an indicator that reflects roughly the size of the production. Two forms are used to measure GDP, nominal (value of goods and services at current market prices) and the real (physical volume of production for a given period). Variations of this reflect to some extent the growth or decline in economic activity in a country (Ron, 2013).

Economic Policy:

The management of economic policy instruments and their influence on what happens with indicators of economic stability are the result of the successes or failures of the ideology of the rulers, economic policy is directly related to the goals of achieving growth rates GDP in constant long-term growth, keeping the general price level in the short term, without neglecting the equilibrium in the balance of payments (Fred, 2013). The measures and actions of the authorities in the economic field aimed at achieving certain ends" term economic policy called the set of measures taken by public authorities (mainly the government of a State) to influence the course of an economy. With regard to the above definitions one can conclude that economic policy is the whole of deliberate measures aimed at achieving predetermined targets authority, thanks to an analysis of reality, through the formulation of policies and strategies that are based on instruments policy even when policy apparently does not.

Economic growth and income distribution are long-term goals, full employment and price stability are short-term objectives, and the balance of the balance of payments is a target in the medium term considered a quasi-objective indirectly by affecting citizens, this objective is considered important because of its relationship to growth, employment and prices (Bradley, 2006).

Economic policy is responsible for implementing standards to achieve these objectives. Rapid identification of problems has fundamental importance in case a severe deterioration in economic magnitudes occurs; statistical information on the main economic variables is at the heart of making appropriate decisions. Public administration through their cabinets economic analyses available information and prepares reports and studies on economic cycles and trends for the adoption of a decision (Mankiw, 2008).

Economic Policy Instruments:

The instruments that the authorities can use come from economic theory, directly related to theoretical principles and are relatively numerous (Ron, 2013). These serve to policymakers as a means of achieving the objectives set and can be divided into the following groups.

1. Monetary and credit instruments (monetary policy)
2. Tax and public spending (fiscal policy) instruments
3. Selling and exchange rate (exchange rate policy) instruments
4. Controls and Direct Regulations

5. Incomes policy (sometimes built in the former group)

Monetary Policy:

It is aimed at controlling the spread of the quantity of money and changes in interest rates. It is used by a government or central bank of a country "to directly influence the value of the national currency, production, investment, consumption and inflation" (Alan, and Stuart, 2008)."Monetary policy is the conscious action by monetary authorities, or deliberate inaction, to change the amount, availability and cost of money in order to contribute to some of the basic objectives of economic policy. Those responsible for implementing monetary policy of a country are: the Central Bank, responsible for managing the monetary instruments governing liquidity and the government through the Ministry of Economy and Finance, who set economic objectives aims to achieve. The Central Bank also usually set milestones (Kendrick, 2010).
The most commonly applied monetary instruments are open market operations, the manipulation of the discount rate and the change in the percentage of required reserves.

The open market operations:

It is the main instrument of monetary policy and consists of the buying and selling of private or public funds. It manifests itself by increasing or decreasing of interest rates (reduction or increase in liquidity), sale or purchase of securities (will cause a withdrawal or injection of liquidity into the financial system).

Changes in the required reserve percentages:

This is subject to the financial institutions against their deposits. These reserves meet ends as solvency, liquidity, monetary control or deficit financing. Instruments previously seen are designed to regulate liquidity, so the best way to analyse the management of these instruments is through the amount of money in the economy, better called primary or base money issuance, which is the monetary liabilities, consisting of notes and coins issued and deposits in national currency of the financial system and the private sector held in the Central Bank (Alan & Stuart, 2008). The issuance after controlling for inflation, should be equal to output growth and should be given high inflation, should be equal to the actual value growth plus expected inflation necessarily much lower than current inflation.

According to the European Central Bank, a tighter monetary policy to achieve price stability objective achieved to reduce the variability of inflation, it contributes to lower real interest rates to give a positive effect on growth. Monetary policy aims to influence economic activity, prices, and even on the exchange rates through monetary instruments. To do this, handle the liquidity of the markets or interest rates (Bhardwaj, 2007). The greater or lesser impact this action may have on the real sector is something that there is total agreement.

Discussion:

It is the policy regarding the imposition of tax rates and public spending, fiscal policy and debt. In other words are the "discretionary government effected variations in income and expenditure to influence the general level of economic activity". Variations in government expenditure whether changes in volume or composition exercise a multiplied effect on economy. Variations in taxes either by changes in the tax structure or by changes in the types of duties, act in reverse to public spending but less strongly felt (Irvin, 2010). A third variation of transfers affects demand in the same sense that public spending but with less intensity than this. The very existence of tax instruments determines their impact on economic activity without being influenced by any government decisions. It act automatically adjusting the economic situation, since the size of the budget surplus or deficit automatically varies with the level of national income. This automatic stabilization reduces the intensity of recessions and expansions without any deliberate change in fiscal policy. A government must balance expenses and income, find stability without creating deficits. The way to increase spending is through revenue (taxes), can also fund these through the issuance of bonds to be purchased by the public (financing through debt), or by creating money to pay for goods and services purchased and interests previously acquired debt. If government expenditures are funded through enhancing the financial support is called debt monetization and represents the public debt held by the Central Bank. Fiscal policy cannot function independently of monetary policy as both are interrelated; policymakers should consider the monetary effects of financing public deficits with money creation to avoid excessive expansion of economic activity, so you would have to increase to a lesser extent public spending (Bradley, 2006).

Economic policy is a strategy used by the government to bring the country's economy, this economy is carried out by two approaches, fiscal policy and monetary policy, as related both by means of the two creates a major impact on the economy. With these policies also seek good resource allocation, stabilize the economy (as mentioned above) and distribute income and wealth; all this could be accomplished by control of inflation and the proper use of productive resources (Fred, 2013).

Fiscal policy in summary is that used instruments relating to taxes and government charges expenditure; these can have effects on productive business activity and economic growth.

Monetary policy as the name implies uses instruments regulate the amount of money circulating in the economy and can generate effects on growth, inflation or interest rates. Both government intervention policies demand, for example if this is done through fiscal policy can be used for road construction thus hire labour, purchase materials, machinery and equipment, and thus increase the productive activity companies related to the construction and employment, which would allow families and businesses to use much of their income and wear-and investment. If stimulates demand through monetary policy, you may do so for example if the central bank increases money in circulation, and thus have more spend (Mankiw, 2008). These should be taken consistently in both policies; there must be coordination and integration between different policies.

Conclusion:

The independence of the Central Bank has helped to achieve price stability and fiscal discipline in many countries. The conventional wisdom considers that this is an essential first-generation reform of monetary and fiscal policies. The question that arises is whether this work would be beneficial second-generation reform, comprising in generating institutional incentives for coordination of domestic policies. This paper presents a model of game theory which in the monetary and fiscal authorities interacts in order to stabilize the economy, have different preferences regarding output gaps and inflation and managing particular policy instruments. It is considered that the monetary officials have a greater utility loss to gaps in the level of inflation before gaps in the level of output, compared to the fiscal authority.

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