PART : 2

Date: 16/ 20/22

শিক্ষাৰ অধিকাৰ

ADOPTING MONETARY POLICY TO COMPLEMENT FISCAL POLICY : THE INDIAN EXPERIENCE :

FISCAL AND MONETARY POLICY :

Fiscal and monetary policy are exerted to produce ~~pull~~ full employment ~~important~~ level of output without hampering price stability. Both the policies aim to promote growth through expansionary policy, contractionary policy on a combination of both the policies. During the time of inflation, the policy is contractionary in nature, where as at the time of depression and ~~vacation~~ recession, the economy and the govt. intervent by increasing its expenditure to ~~enco~~ encourage demand. This expansionary fiscal policy improves aggregate effective demand which leads to increase in output, employment and price level, it leads to increase in interest rate in the money market. When there are inflationary trend, AD is excessive policy makers should cut govt. spending raise. Taxes and reduces money supply. This is the action of contractionary fiscal policy

Expansionary fiscal policy :

G↑ → AD↑ → Y/ employment / price level ↑ → r ↑

tax ↓ → Dispos income ↑ → consumption ↑ → AD↑ → Y/ employment / price level ↑.

Contractionary fiscal policy :

G↓ → AD↑ → Y / employment / price level ↓ → r↓

tax ↑ → DI ↓ → cons ↓ → AD↓ → Y / employ^n / PL ↓

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During inflationary period, monetary policy is contractionary in nature. The monetary ~~in~~ authority controls the money supply by increasing the cash reserve ratio, bank rate, repo rate or to reduce money supply, so that the macroeconomic equilibrium of price stability, full employment and economic growth is attain. In case of expansion of monetary policy reduction in cash reserve ratio leads to a reduction in interest rate, increases aggregate demand, output and employment.

The Indian fiscal and monetary policy function jointly. In India, annual financial statement is presented before the parliament every year. The union budget provides estimates of future revenue and expenditure for the upcoming year ~~for the~~

Before preparing the fiscal policy, the policy maker calculated the sources of revenue and budget the necessary expenditure. India's fiscal policy has been tight or contractionary in nature. The policy makers have stood with that stickiness or rigidity despite facing problems such as the global financial crisis. Because of this approach, the job of monetary policy makers becomes tougher during the implementing year. The monetary policy is quarterly in nature, where the policymakers make sure that they are ~~five~~ fine making policies to maintain macroeconomic equilibrium (i.e. maintaing price stability, full employment and economic growth)

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