Macro-Economy of the United States

Overview

The United States has the strongest and largest economy by nominal GDP and is the second largest by purchasing power parity (PPP) in the world today. It has a high diversified industrial sector due to its economy being fueled by natural resources, high productivity and a developed infrastructure, as well as having the second largest industrial output due to its high technology innovator. As of 2016, the U.S. is known to be the largest trading nation in the world. The country participates in WTO and OECD trading organizations as well as others and its trading partners are China, Mexico, Japan, Canada, South Korea, United Kingdom, France, Germany, Taiwan and India. What makes this economy more powerful than others is due to the fact that U.S. economy is largely a post-industrial economy.

History

From 2009 till present day 2018, the United States has been recovering from the Great Recession that occurred between December 2007 to June 2009. On December 1, 2008, the National Bureau of Economic Research declared that the United States entered a recession that lasted between 2008–2009. The recession occurred because there was two consecutive quarters of a negative GDP growth as debt was increasing at a faster rate than that of income. Since the recession ended, the United States has experienced fluctuated changes in its status in the 4 economic goals in a macro-economy: full employment, inflation, economic growth and equity.
Full Employment

Current Status
As of April 2018, the unemployment rate decreased to 3.9%, the lowest rate since December 2000. In 2017, the unemployment rate was 4.4%, within one year, the unemployment rate decreased by 11.4% This shows that the United States is on track to reaching full employment as the country is recovering from the Great Recession. The Great Recession caused for over 8.3 million jobs lost across all age groups except those ages 55 and over and by 2009, the unemployment rate to increase by 10.1%. The significant loss of jobs was due to the slow of the housing market because of foreclosures which then the economy slowed down as well since less people were buying homes. As a result of this, unemployment increased because of the effect on firms since the housing market makes up a big part of consumer expenditure, hence GDP. Firms were not making enough money leaving them to forcibly make their workers redundant.

Government Policy
The government reduced unemployment by increasing economic growth. After the recession ended, the unemployment rate only increased more. This is because many started to actively look for work again as they regained hope of finding a job making them officially unemployed. To achieve economic growth the government increased price levels so that firms make more profit. This was done by the stimulus package. The stimulus package was requested by President Obama during his 2008 campaign and was approved by Congress in 2009. It ended the Great Recession by driving consumer spending and included the confidence to boost economic growth. The package included tax cuts by $288 billion, $224 billion on extended unemployment benefits, education and health care, and $275 billion allocated to create new jobs. As a result, the stimulus package allowed the citizens to have more disposable income which served as an injection into the economy. According to the Keynesian Multiplier, the effect was able to boost aggregate demand and cause economic growth and eventually inflation hence, an increase in price levels.

Proposed Solutions
The government’s action towards increasing economic growth is an efficient way of decreasing unemployment. This way, firms can make more profit. They will have more capital to invest and hire more workers causing price levels to increase as well as the aggregate demand. Unemployment, as a result of this will decrease as with more money in the economy, there is higher opportunity for individuals to work.

Diagrams

When Price levels increase from P1 to P2 there is an upward shift of the aggregate demand curve from AD1 to AD2 causing a movement along the short run aggregate supply curve. This will happen as a result of the stimulus package because it helps increase economic growth as the demand to work increases and price levels increase. An increase in price levels will increase the level of output as firms are making more
money and new jobs are created. When this occurs, the level of employment increases as well. With more workers in the workforce, more individuals are making an income which as a result there is an increase in consumer spending and therefore GDP will increase from Y1 to Y2.

Inflation

Current Status
The United States’ inflation rate as of 2018 is 2.5%. Prices rose over 0.5% more than the expected 0.3% increase, the fastest annual pace in 12 months. Costs of oil increased causing a 3.0% increase in gas prices as well as a 2.0% increase of healthcare costs. Due to the country’s actions towards dealing with its recovery from the Great Recession, price levels have increased as economic growth is helping the country recover from the recession. As a result of the increase in price levels, inflation has gone up dramatically since the end of the recession in 2009. Although the current status of the inflation rate shows that the country is on track towards its progress in this section of their economy, there is the risk of price levels increasing more and more in future years resulting in damage of GDP. When this happens the risk of inflation decreasing in future years is possible because increase spending leads to increase prices causing the currency to worth less than what is was before as consumers will spend less.

Government Policy
The government’s policy in regards to stable inflation is centered around the Federal Reserve. The Federal Reserve helps maintain a low and stable inflation rate. As of 2018, the current inflation rate is 2.5% which in many respects, is close to the ideal rate of inflation. It thus ensures the inflation rate remains stable at that mark by controlling the money supply in the country to manipulate spending and demand.

Proposed Solutions
It is important for the government to keep prices stable. If inflation keeps increasing, there is the possible result in diminished population purchasing power and thus damage GDP. Overall the Federal Reserve is highly successful as it ensures the money supply stays low since if it’s not controlled in this way, and inflation increasing substantially, demand and spending would increase highly resulting in bringing up inflation which is what governments need to avoid.

Diagrams
The United States’ strong and sustained economic growth resulted in demand pull inflation as prices adjusted upwards to account for the market price by the increase in AD. However, this increase in price levels resulted in an increase the inflation rate. As price levels continued to increase inflation increased dramatically due to the shift in aggregate demand from AD2 to AD3 where full employment is meant and resources are allocated efficiently.
Economic Growth

Current Status
The Gross Domestic Product (GDP) as of 2018 is 20.41 billion U.S. dollars and had a growth rate of 2.3% from 2017. As the United States went through the Great Recession, to get out of recession, the government increased economic growth. The country is progressing well in economic growth as GDP has increased every year since action was taken place into getting out of recession as well as the country being ranked number 1 for the largest economy in the world due to its GDP.

Government Policy
The actions put forth to achieving economic growth continues till this day. Since President Donald Trump’s first year in office, corporate and personal tax rates were cut in December 2017. The tax cuts for corporations, small businesses and individuals will boost economic growth as their would be an increase in income raising consumption in the market. According to Federal Reserve data, 74% of Americans stated that their finances were okay in 2017, a 4% increase from 2016. In addition, although unemployment rates have been decreasing before President Trump assumed office, it has continued to fall and is currently at a 17 year low as of 2018 at 3.9%.

Proposed Solutions
Economic growth is progressing well in the United States till this very day. GDP has increased every year since the end of the recession and is predicted to continue growing in future years. However, there is concern that the U.S. tax cut by the Trump administration could cause an economy that is near full capacity to overheat. This would lead to the Federal Reserve policy to become more aggressive than anticipated resulting in high inflation. High inflation is not a healthy effect on the economy and thus economic growth will decrease. With high inflation there is the possibility of inflation exceeding the interest rate and if that happens, people will save less as they fear the devaluing of their savings as a result of increasing general price levels. To keep this from occurring, monetary policies should be put forth. This way the supply of money can be controlled by reducing it in order for spending to decrease. With less money to go around, people will save more and increase inflation and thus, economic growth.

Diagrams

Due to economic growth, the price level increased from P1 to P2. With more money flow in the economy, there is an increase of productivity resulting in an increase in real GDP from Y1 to Y2. As a result, there is economic growth. This comes with increased factors of production since with more money in the economy, labor, capital and land increase as firms are able to hire more workers and new jobs are created shifting LRAS1 outward to LRAS2.
Equity

Current Status
As of 2013, the Gini coefficient was 0.41 which is relatively low, meaning that 5 years ago today, the country was on track to an even distribution of income. Despite the economic gains the United States has experienced throughout recent years, their economy isn’t perfect due to equity. Gender inequality is a problem in income distribution as at every educational level, men make more than women do. This is a problem in that women would not feel motivated to work if they won’t make as much of an income as men. With that, unemployment would decrease resulting in GDP decrease and the economy will not continue to grow. Another reason for inequity in the United States is due to the uneven distribution of taxes between the level of income individuals receive. As of 2017, the U.S. federal tax system is progressive meaning high income households pay a larger share of their income than those with lower incomes. This would cause the gini coefficient to increase more because with disproportionate tax incomes, leaving the economy at risk of growing.

Government Policy
On December 10, 2015, President Barack Obama signed the Every Student Succeeds Act to give equal opportunity for all students for an education. There has been progress in recent years due to the efforts of educators, parents, communities and students from all across the country. As a result, high school graduation rates are at all time highs, drop-out rates are at historic lows and more students are going to college than ever before. This provided a foundation to expand educational opportunities as well as improve student outcomes. The Every Student Succeeds Act would help the country progress towards equity as there is recent data on how income is distributed based on their educational level. With more students receiving better education, more will succeed and there would be a higher population of those receiving a higher income decreasing the gini coefficient as poverty rates will decrease as well.

Diagrams

With a lower gini coefficient, the area of inequality represented by A, gets smaller as it moves toward the perfect inequality line. Due to the Every Student Succeeds Act, the area of A, would get smaller and smaller and the proportion between the cumulative % of income will be relatively equal to the cumulative % of population. With the Gini coefficient at 0.41, in 2013 and the act signed in 2015, the gini coefficient would only get smaller and the area of A would get smaller.
Works Cited


