Macroeconomic Policy Instruments

• Fiscal Policy
• Monetary Policy
• International Economic Policy
• Incomes Policy

1. Fiscal Policy
• Fiscal policy is the use of government expenditures and taxes to affect aggregate demand and aggregate supply.
• Government expenditure includes government spending on goods and services.
• Taxation affects the overall economy in two ways:
  • Taxes tend to reduce the amount people spend on goods and services
  • Taxes affect market prices, thereby influencing incentives and behaviour.

2- Monetary Policy
• Monetary policy determines the money supply as well as interest rates, in order to achieve desired economic objectives. Changes in the money supply move interest rates up or down and affect spending in sectors such as investment, housing, and net exports.
3- **International Economic Policy**

- International Economic Policy consists of two sets of policies:
  
  - Trade policies, which consist of tariffs, quotas, and other devices that restrict or encourage imports and exports.
  
  - Exchange-rate setting. Exchange rate represents the price of one currency in terms of the currencies of the other nations. There are different systems to regulate foreign exchange market.

4- **Incomes Policy**

- Incomes policies are government attempts to moderate inflation by direct steps (legislated wage, price controls).

- Incomes policies are the most controversial of all macroeconomic policies.