

## **Answer on Question #44207 – Economics – Macroeconomics**

HOW MONETARY AND FISCAL POLICY stabilize the business cycle in least developed countries

### **Solution**

Business cycles in OECD countries after World War II were generally more restrained than the earlier business cycles. This was particularly true during the Golden Age of Capitalism (1945/50–1970s), and the period 1945–2008 did not experience a global downturn until the Late-2000s recession. Economic stabilization policy using fiscal policy and monetary policy appeared to have dampened the worst excesses of business cycles, and automatic stabilization due to the aspects of the government's budget also helped mitigate the cycle even without conscious action by policy-makers.

In this period, the economic cycle – at least the problem of depressions – was twice declared dead. The first declaration was in the late 1960s, when the Phillips curve was seen as being able to steer the economy. However, this was followed by stagflation in the 1970s, which discredited the theory. The second declaration was in the early 2000s, following the stability and growth in the 1980s and 1990s in what came to be known as The Great Moderation. Notably, in 2003, Robert Lucas, in his presidential address to the American Economic Association, declared that the "central problem of depression-prevention [has] been solved, for all practical purposes." Unfortunately, this was followed by the 2008–2012 global recession.

Various regions have experienced prolonged depressions, most dramatically the economic crisis in former Eastern Bloc countries following the end of the Soviet Union in 1991. For several of these countries the period 1989–2010 has been an ongoing depression, with real income still lower than in 1989.[citation needed] This has been attributed not to a cyclical pattern, but to a mismanaged transition from command economies to market economies.