

MY BEST CLASS

Understanding Fiscal and Monetary Policy: A memorable Event in Hiroshima University.

Fiscal and Monetary Policies are the two major influential macroeconomic policies which can be applied as policy tools to achieve the desired macroeconomic outcome through the manipulation of various macroeconomic variables. Apparently it seems very straightforward that the expansionary policy can remove recession by stimulating the economic activities while the contractionary policy can fight against inflation and hence, curb the overshooting of the economic activities. But in reality the application of these policies to stabilize the economy is not so simple.

Thus to understand the complexity of these economic policies I attended the course titled "Development Macroeconomics" in IDEC conducted by Professor Miki Ishida in the first semester of 2011 bearing a question in my mind and that was "why does the same macroeconomic policy produce different outcomes across the different countries?" I think I got the complete answer of my question in the Development Macroeconomics class on the 11th July, 2011. Professor Miki Ishida explained it by incorporating goods and money market together using the famous IS-LM model. First the goods market was explained by constructing IS curve from the IS equation. How the slope of IS curve is determined and what factors cause the shift of this curve were explained very carefully so that every student can understand the fact clearly. In this stage the instructor of the class also derived the expenditure multiplier by using his innovative technique. Second the money market equilibrium was explained by deriving LM curve from the LM equation. Money market is really a strange world which cannot be realized without having a minimum knowledge on the determinants of LM curve. I think the instructor was almost successful to disseminate this knowledge to the students. Here the money multiplier mechanism was also explained which was very helpful to understand the basic mechanism of money supply process. This section made me understand why the actual money supply of most of the central banks in the world misses the target. Finally the equilibrium condition was explained by adding IS and LM curve together. This was a crystal-clear explanation which guided me to understand how the equilibrium interest rate and output level are determined by the complex interaction between goods and money markets. The mathematical derivation method of IS and LM equations was so simple and powerful that this would never be forgettable. It was not a ready-made power point presentation; rather it was a manual step by step calculation followed by the spontaneous explanation that was very helpful for

understanding the issue in a sustainable manner. Furthermore, explanation process followed by the lecturer created an ultimate motivation that guided me to pursue the recommended study materials and to realize the basic philosophy behind such economic policies. In this way, I could successfully understand the determinants of expenditure and money multipliers and their basic rules in determining the effectiveness of monetary and fiscal policies within a given structure of the economy. Moreover, the English language spoken by the lecturer was outstanding which was very essential for proper understanding the subject. Now it is very clear to me that the same policy such as equal increase in government expenditure or equal increase in money supply in different countries can yield different outcome given the different values of their respective expenditure and money multipliers.

I have attended many wonderful classes in IDEC over the last two semesters conducted by the knowledgeable lecturers which are not easy to differentiate. Nevertheless, the aforesaid class has made me well equipped in understanding the underlying theory behind the fiscal and monetary policies and enabled me to visualize the impact of a change in any policy variable on the prospective macroeconomic outcome. I hope I would be able to remember this lesson for the rest of my life. This is why that session is now considered to be the best class I ever attended in Hiroshima University.