



MONETARY AND FISCAL POLICY MIX AMID COVID-19 PANDEMICS AND THE ECONOMIC GROWTH PATH

DOI: 10.17261/Pressacademia.2022.1595

PAP- GBRC-V.15-2022(27)-p.134-135

Ata Ozkaya

Galatasaray University, Department of Economics, Istanbul, Turkey.

ataozk@yahoo.com, ORCID: 0000-0001-7974-5600

To cite this document

Ozkaya, A., (2022). Monetary and fiscal policy mix amid Covid-19 pandemics and the economic growth path. PressAcademia Procedia (PAP), 15, 134-135.

Permanent link to this document: <http://doi.org/10.17261/Pressacademia.2022.1595>

Copyright: Published by PressAcademia and limited licensed re-use rights only.

ABSTRACT

Purpose- We focus on the recent debate on policies enhancing the economic growth and query the crucial results of the modern growth theory implying a relationship between factor substitution elasticities and sustainably perpetual growth. Our study corrects the misinterpretation that the elasticity of substitution would be an engine for perpetual growth. We query the future path of the modern growth theory, its inconsistencies and possible policy tools amid extreme events where the Covid-19 pandemic deteriorated the global supply chains and total demand in the economy.

Methodology- The study employs first order ordinary differential equations method.

Findings- Finally, we propose a modeling of economic disequilibrium under extreme events causing demand and supply shocks. This model shows the conditions under which the equilibrium domain for the supply and demand functions cannot be converged. As an application, our results suggest that amid Covid-19 pandemics, U.S. fiscal policy and monetary policy do not optimally match and hence the fiscal policy should be calibrated. Otherwise, the economic growth path would be hampered sooner than expected.

Conclusion- Therefore, we suggest policy implications to overcome these discontinuities. We believe that the extensive approach proposed in this study will be a source for different points of view. We hope that our results shed light on future empirical studies focusing on the remedies to increase growth rate.

Keywords: Elasticity of substitution, production functions, economic growth, Covid-19, extreme shocks.

JEL Codes: O40, O41, O42

REFERENCES

Arrow, K.J., Chenery, H.B., Minhas, B.S. and Solow, R.M. (1961). Capital-labor substitution and economic efficiency. *The Review of Economics and Statistics*, 43(3), 225-250.

De La Grandville, O., (1989). In Quest of the Slutsky Diamond. *The American Economic Review*, 79(3), 468-481.

De La Grandville, O., (2009). *Economic growth: a unified approach*. Cambridge University Press.

De La Grandville, O. and Solow, R. M. (2006). A conjecture on general means. *Journal of Inequalities in Pure and Applied Mathematics*, 7(3), 121-133.

De La Grandville, O. and Solow, R. M. (2009). Capital-labour substitution and economic growth. In *Economic Growth: A Unified Approach*. Cambridge University Press.

Klump, R. and de La Grandville, O. (2000). Economic Growth and Elasticity of Substitution: Two Theorems and Some Suggestions. *The American Economic Review*, 90, 282-291.

Klump, R. and Preissler, H. (2000). CES Production Functions and Economic Growth. *Scandinavian Journal of Economics*, 102, (1), 41-56.

Minutes of the Federal Open Market Committee, April 28-29, 2020.

<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20200429.pdf>.

Minutes of the Federal Open Market Committee, December 14-15, 2021.
<https://www.federalreserve.gov/newsevents/pressreleases/monetary20220105a.htm>)

CNBC Reportings, September 14, 2020. <https://www.cnbc.com/2020/09/14/steven-mnuchin-now-isnt-the-time-to-worry-about-the-deficit-fed-balance-sheet.html>.

Biden wage plan, 04/27/2021 <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/27/fact-sheet-biden-harris-administration-issues-an-executive-order-to-raise-the-minimum-wage-to-15-for-federal-contractors/>.