**Lesson 6 – Essay Q2**

**Explain why fiscal policy is more effective than monetary policy in managing unemployment. (12)**

Introduction  
Meaning of unemployment and how employment can be classified into types of unemployment.

State that the government may adopt fiscal and monetary policy to solve unemployment and FP will be better than MP in solving unemployment.

Main Body

1. Explain how FP and MP can work to solve the types of unemployment

2. Explain why FP can solve unemployment better than MP

* FP is faster than MP in solving unemployment as it can provide immediate and direct employment through the provision of public services while MP may have many decision making processes to utilize low interest policy to stimulate investment which will lead to employment.
* FP can provide a greater variety of employment opportunities as the government expenditure on infrastructures and job training allows diversification while MP depends on the development of industries which often cannot adjust to the structural problems of unemployment
* FP is a direct component of the aggregate demand while MP needs to engage in monetary transmission mechanism to raise consumption and investment which is greatly depends on market sentiments of consumer and investors.

3. state that FP has its limitations in solving unemployment

Cost of financing

Time lag due to the inefficiency of the government

**Crowding effect** – crowd out private fund available for ptr investment due to excessive government borrowing, leading to a contractionary effect on the economy which will limit th economy from creating jobs.

**4. State that MP has its role in solving unemployment under these circumstances**

It provides more permanent employment and high wage employment than government sector.

**5. state why both policies are limited in solving unemployment**

Small multiplier

Level of G, I and C are too small to compensate the loss of production from loss in external demand and thus the policies are not able to eradicate cyclical unemployment.

**Conclusion**

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