

Eduardo -- Coronavirus Guided Remote Inquiry

in Economics

List:

Unemployment

Recession

Government Intervention

Deflation

Fiscal Policy

Supply-side policy

Foreign Direct investment

Excess supply

Excess demand

Merit goods

Demerit goods

Economic development

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Definitions:

Recession: Negative GDP growth throughout two successive quarters, economies experience declines throughout recessions and trade along with industrial activity tends to decrease.

Merit goods and services: Merit goods and services are goods or services with positive externalities merit goods are provided through the free market, but not in sufficient quantities that allow for a maximization of social welfare.

Demerit goods and services: Demerit goods and services are goods or services with negative externalities to third parties or to the individual, they are overconsumed which prevents a maximization of social welfare.

Excess demand: Excess demand is experienced when the quantity demanded is above the equilibrium price, which causes the quantity demanded of a good or service to be above the quantity supplied, thus producing a shortage in the market.

Excess supply: Excess supply is experienced when the price is above the equilibrium price, which causes the quantity demanded of a good or service to be below the quantity supplied, thus producing a surplus in the market.

Real-Life Example--Relation to Coronavirus:

Recession:

As mentioned above, for an economy to be considered in a state of recession there has to be a negative GDP growth throughout two successive quarters. As of now, in Spain, 2 quarters have not passed since Coronavirus arrived in Spain, yet Spain seems certain that a recession is coming this 2020, or at least that's what the main American banks point out. Goldman Sachs and Morgan Stanley, two of the main American financial institutions assure that our country will have negative economic GDP growth following this course, although they point to an economic rebound in 2021 when the coronavirus crisis is over. Morgan Stanley ensures that Spain will register a Gross Domestic Product (GDP) contraction of 1.3%, while Goldman Sachs puts itself in the worst-case scenario, assuring that the fall will be 5.5%.

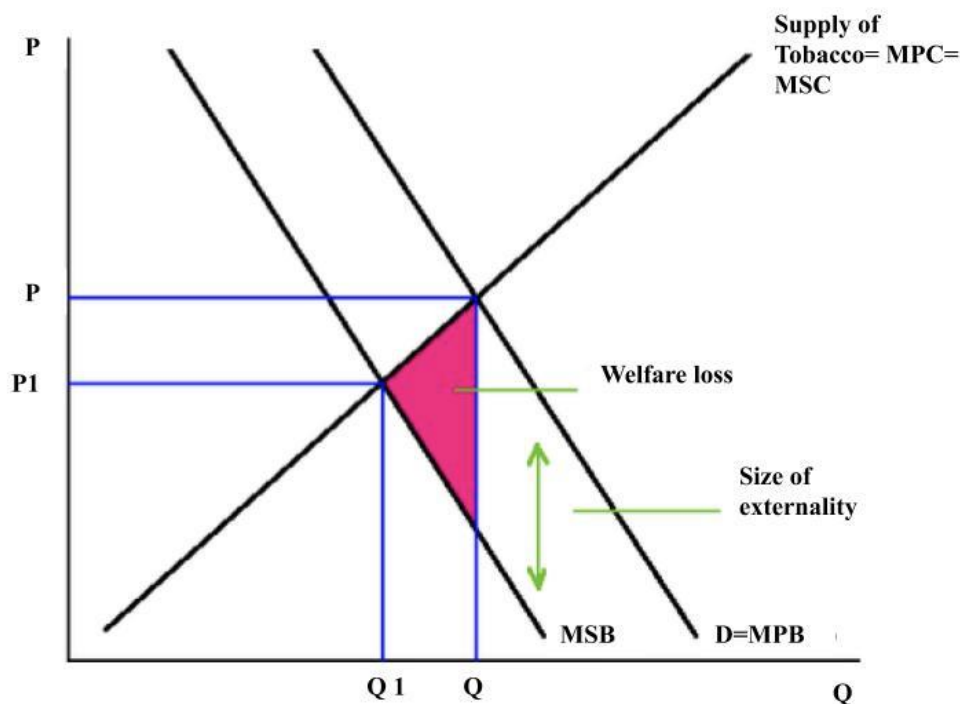
Merit goods and services:

Merit goods have positive externalities to third parties and to individuals in an economy, and they are often under-consumed. In the shadow of the Coronavirus, there are many goods that are currently being under-consumed. When these goods are under-consumed the government has to intervene and help provide the

goods. Spain has just purchased more than 640,000 rapid detection tests for the diagnosis of the Covid-19 coronavirus (which gives a response in 15 minutes) and the first of them are being distributed today. The distribution of these goods will reduce the social cost of going to seek medical expertise with the risk of infecting various other individuals.

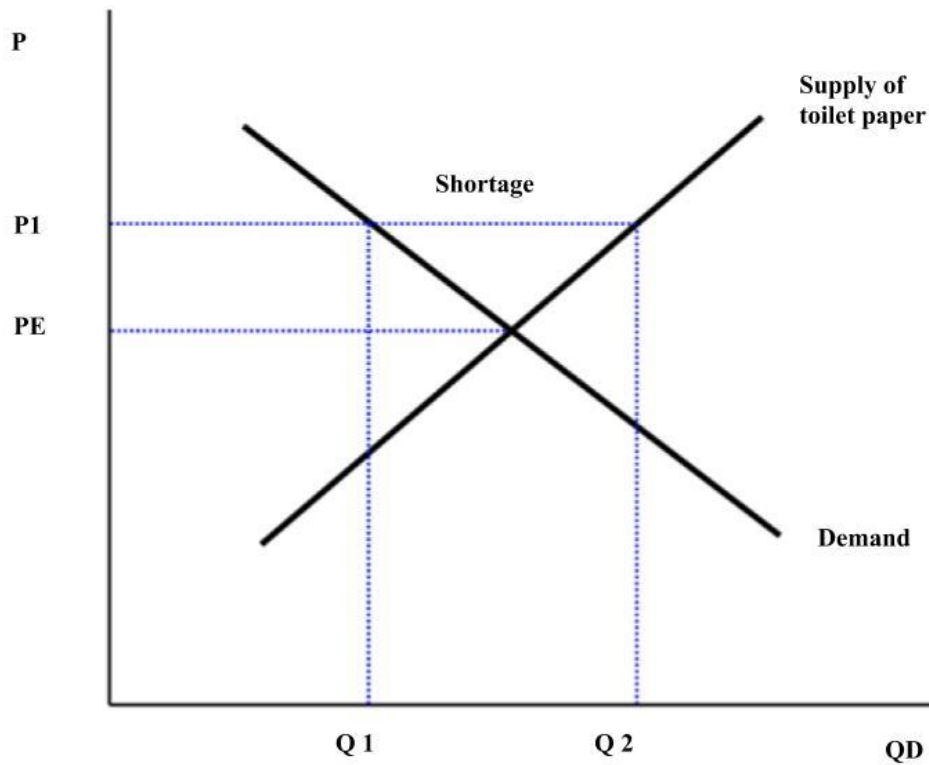
Demerit goods and services:

There are many demerit goods and services that are allowing the Coronavirus to have a greater toll on world economies. As an example, pollution or tobacco are certainly having third party negative effects on other individuals. There is clear evidence for this, as an example, a superior quantity of males are dying in respect to women, this is mainly due to male life choices such as smoking, which greatly increases one’s probability of being in a critical state or dying which has a great cost in mass numbers in an economy.



Excess demand: Since the first two cases of coronavirus infections in Spain were announced, sales by supermarkets and warehouses throughout the country exceeded normal amounts, and shortages were

produced. The greatest shortages are experienced in the toilet paper and sanitation market, in which excess demand hand to hand with shortages are visibly seen. These shortages if not corrected have the probability of heavily impacting individuals' situations and thus, in the long run, the economic situation.



Government Interventions:

Actions performed by the government:

Enforced Quarantine

Purchase of Coronavirus testing kits

Border Control

Subsidization of Goods and Services

Economic Impact of Government Interventions

Enforced Quarantine:

The enforced quarantine has and is going to impact the economy heavily in many negative ways, yet hopefully, in the long run, the quarantine will be less negatively impactful for the economies than no quarantine at all, as the social cost of a greater amount of infected individuals will be decreased in respect to no quarantine. This quarantine will in the short run heavily impact the aggregate supply of the economy and also impact the demand for many goods and services and the aggregate demand as a whole. It is also important to mention that social welfare in many aspects will not be able to be maximized due to the quarantine, a clear example is the lack of education for students around the world, also possibly affecting the aggregate supply of the economy in the long run.

Purchase of Coronavirus testing kits: As mentioned above, Spain has just purchased more than 640,000 rapid detection tests for the diagnosis of the Covid-19 coronavirus (which gives a response in 15 minutes) and the first of them are being distributed today. Also mentioned above, the distribution of these goods will reduce the social cost of going to seek medical expertise with the risk of infecting various other individuals. Hopefully, the added cost of purchasing these tests will reduce the social cost of a greater amount of Coronavirus infections in the country.

Policy recommendation:

Governments facing national emergencies could first provide the municipalities with resources to deliver food, basic necessities, and pharmaceuticals, especially to the elderly at home, thus avoiding having to leave the house to obtain them and risking further infections. Preventing infections and providing merit and public goods would increase social benefit and hopefully reduce the greater possible social cost, at the cost of increased spending, which could, in theory, increase aggregate demand. The government should also heavily increase the national manufacturing of sanitary products and other types of related materials which prevent further infections or increase the capacity of our current healthcare institution. The government could also create a type of "strategic reserve" of this type of sanitary products to be prepared against future pandemics in the event that they occur. The government manufacturing of these types of products could, in theory, reduce the shortage increase the aggregate supply and demand and decrease the predicted increased unemployment that is foreseen due to the approaching recession as mentioned above.