Additional case study: Greek economy

In 2010 the Greek government had to inform the European Commission on how it would control its budget deficit and improve the performance of its economy. The government’s debt is so high that agencies assessing the creditworthiness of the government downgraded it (which would mean more interest has to be paid to raise finance). Proposals were likely to include a 10% cut in government spending.

Questions

1. Outline two possible economic objectives of the Greek government.

2. Explain why the government’s budget deficit might be in a large deficit.

3. What would the effect on aggregate demand be if the government cut public spending by 10%?

4. What actions can the government take to increase national income growth in Greece?

5. If the Greek economy is in recession what would you expect to be the effect on:
   a) Inflation?
   b) Unemployment?
   c) Imports?
   Explain your answers.