ABSTRACT

BOBIER, R.M.G. Effectiveness of Fiscal and Monetary Policy Instruments on Philippine Macroeconomic Performance Bachelor of Science in Business Administration Major in Economics, De La Salle University-Dasmariñas, Cavite. March 2009. Adviser: Mr. Benjamin A. Usigan.

Over the years, issues regarding the effectiveness of fiscal and monetary policy have remained debatable among Keynesians and monetarists focusing among others, on which policy is more effective in stabilizing the economy. The paper examined the effects of fiscal and monetary policy instruments on Philippine macroeconomic performance, keeping in mind the objective as to which policy is more effective in stabilizing the Philippine economy. The study regressed macroeconomic policy instruments on policy targets and described the trends of the variables from 1985 to 2007.

To achieve the objective, the study employed partial adjustment model to determine the short run and long run impact of the policy instruments on policy targets. The bases of the effectiveness were the empirical results, the coefficient of adjustment and estimated impact on the short run and long run. The study also used Granger causality test after testing the variables for stationarity.

The results show that fiscal policy is more effective than monetary policy. The results of fiscal policy regression show consistency as the Keynesians suggest. The statistical significance and the estimated impacts of fiscal policy instruments on the economic indicators are reliable. In addition, the adjustment takes one lag. On the

other hand, the results on monetary policy show no significance and are inconsistent with the theory. It takes 0.75 lags to achieve price stability. However, it takes a longer period to achieve external stability.

Following the results, policymakers and taxation authority should use fiscal policy as basis of policy actions. On the other hand, the BSP should be cautious on managing the level of prices; improve transactions in foreign exchange; and control the level of money supply and interest rate to stimulate capital flow and output growth. But still, the problem of timing and lags, which causes negative effect, should be considered in policymaking.