TESTOL – Evaluation Skills

(T) Type	*Demand-pull inflation or cost-push inflation?*	Depending on the circumstances, inflation can result from either excessive demand (demand-pull) or rising production costs (cost-push). Understanding the underlying cause is crucial for appropriate policy responses.
	Frictional unemployment or cyclical unemployment?	Unemployment may stem from frictional factors (people transitioning between jobs) or cyclical factors (related to economic downturns). Identifying which type predominates helps in designing targeted policies.
	Whether the inflation can be anticipated?	Anticipated inflation allows for better planning by businesses and households. It affects their behavior regarding spending, saving, and investment.
	Low-income country or high-income country?	The economic challenges and policy priorities differ significantly between low-income and high-income countries. This influences the appropriate policy mix and development strategies.

	Developing country or developed country?	Similarly, the stage of economic development affects the policy approach, with developing countries typically facing different issues such as infrastructure development, poverty reduction, and education.
	Merit goods or demerit goods	Distinguishing between merit goods (beneficial for society) and demerit goods (harmful to society) helps in determining appropriate tax policies and regulation to promote social welfare.
	Fixed or floating exchange rate system?	The choice between fixed and floating exchange rates impacts a country's ability to control inflation, manage external balances, and respond to economic shocks.

(E) Elasticity	*How the tax incidence may differ depends on the PED and PES?*	Tax incidence varies depending on the price elasticity of demand (PED) and supply (PES), influencing who ultimately bears the burden of the tax.
	Whether the exports and imports are elastic?	Elastic exports and imports respond more significantly to changes in price, affecting a country's trade balance and economic stability.

(S) Size, extent	*Low and stable inflation or hyperinflation?*	The magnitude and stability of inflation impact consumer and investor confidence, affecting economic decision-making.
	The extent of market failure/macro issue?	Understanding the extent of market failure/ macroeconomic issues helps in designing appropriate interventions to address inefficiencies and promote economic welfare.
	Whether there is spare capacity in the economy?	Identifying spare capacity informs monetary and fiscal policies to stimulate economic activity without causing inflationary pressures.

	Whether and to what extent the country is opening to the world economy?	Integration into the global economy affects trade, investment, and exposure to external shocks, influencing policy choices.
(T) Time	*Short-term or long-term?*	Economic policies may have different effects in the short and long term, necessitating careful consideration of timing and sequencing.
	Temporary or permanent? (e.g., deficit)	Distinguishing between temporary and permanent factors helps in determining appropriate policy responses, especially regarding fiscal deficits and structural reforms.
	Time lag of interest rate?	Recognizing the time lag between changes in interest rates and their impact on the economy is crucial for effective monetary policy implementation.
	Supply-side policy may take time to be effective.	Supply-side policies, such as investments in education and infrastructure, often have longer-term impacts on economic growth and productivity.
(O) Objective/ expectation	*The priority of the government?*	Governments may prioritize various economic objectives, such as price stability, full employment, or economic growth, depending on prevailing conditions and political considerations.
	How households and firms react? (lack confidence or not?)	Understanding consumer and business sentiment is essential for predicting economic behavior and assessing the effectiveness of policy measures.
	Other government interventions which offset the impact	Governments may implement various policies to offset the impact of economic disturbances or to achieve specific objectives. Understanding these interventions helps in evaluating the overall effectiveness of policy measures.

(L) Limitations	*Difficult to collect data or calculate the exact figure?*	Data limitations can hinder accurate economic analysis and policymaking, particularly in developing countries or in areas with weak institutional capacity.
	Cost issue (of advertising when providing information, buffer stock scheme)?	Implementing certain policies, such as information campaigns or buffer stock schemes, may incur significant costs that need to be weighed against potential benefits.
	Availability of funds?	Budget constraints may limit the government's ability to implement certain policies, especially during economic downturns or crises.
	Difficulties in predicting the response of other governments	It may be challenging to anticipate how other governments will react to economic events or policy changes, introducing uncertainty into the analysis.
	Uncertainties regarding other factors offsetting the impact	Identifying and quantifying all factors that may offset the impact of economic policies or shocks can be challenging, potentially leading to incomplete assessments.