RISK AND UNCERTAINLY CONCEPTS FOR MODERN ECONOMIC THEORY UPGRADE IN TIMES OF COVID 19 PANDEMIC DAMAGES

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Abstract: *We agree with Padhan and Prabheesh, (2021) according the issue that Conventional macroeconomic policies to deal with COVID-19 pandemic is UN restricted only to conventional economic measures. From a fiscal policy perspective, the effective dealing with the pandemic results depends upon governmental activities. From monetary policy perspective, the right way for dealing with the pandemic results, is expansion which could increase demand and investment element.*

Key words: *COVID-19 pandemics; damages; Economic theories; fiscal policy; monetary policy; economic theories of regulation; welfare theories; Modern Monetary Theory (MMT), Price theory.*

Introduction. According to explanation of inconsistencies between economics models and reality, Bugarin (2010) argues that risk and uncertainty are associated with the fact that we live in a nondeterministic world in which we do not have complete information.

In a “non-deterministic” world there is no complete information regarding the surrounding phenomena. Information is limited and it is difficult to estimate the different probabilities of what might happen. Therefore, society’s reaction to COVID-19 pandemic can be better understood by means of two fundamental concepts of modern economic theory: risk and uncertainty. People are afraid for example of a heart disease which is certainly a health risk, but medicine domain considerably knows more about its prevention, symptoms, treatments, medicines, etc. Great uncertainty causes difficulties in making consensual decisions against the new threat of COVID-19.

Little is known about COVID-19. It is a clear situation of uncertainty. It is impossible to estimate the probabilities associated with the pandemic. How many will be infected? Why do some people remain with respirators for weeks and survive while others die within a few days (Bugarin, 2010)?

Ramazzotti (2021, p. 492-498) argues that proper economic policy requires an economic theory that describes the institutional status and its possible change. In the COVID-19 crisis, European policy, despite the theoretical dominance of mainstream, not only prices issues cause to deal with decision-making in issues such as subsidies and the financial measures they require.

Hertog (2010, p. 2-3) claims with respect to the economic theories of regulation includes two broad traditions of economic theories as follows: 1) Public interest theories of regulation. This first tradition argues that regulators who aim at pursuing public interest promote the public interest; 2) Private interest theories of regulation. This second tradition argues that generally, all economic agents pursue their own interest, which may or may not include elements of public interest. Moreover, regulators do not have sufficient information with respect to cost, demand, quality and other dimensions of firm behavior. Therefore, in this situation, regulators can promote public interest only imperfectly, if at all, promote public interest while controlling firms or societal activities.

Theories. According to welfare theories, regulation increases social welfare, after market failures and efficient government intervention (Hertog, 2010). Compensation of losses system due to COVID-19 damages. By maintaining the purchasing power of households, overtime the shock is cut off or reduces. Gollier and Straub (2020) argue that compensation of losses by the State is as well a way to ensure that this production shock does not additionally generate a demand shock. Keynesian perception must be the way to deal with COVID-19 when the situation requires it. The State must recapitalization through efficacy of organizations by participation in the capital. Additionally, it is necessary to prevent business failures, to ensure the operating of industrial apparatus. The optimal mix of interventions will shift towards less social insurance and more aggregate demand stimulus, of a form that is yet to be defined.

Berezov (2020) argues that humans seem to have a psychological need to explain troubling phenomena as the end result of meddling in powerful, mysterious forces in the universe.

Teaching economic theories and reality in COVID-19 pandemic age. Standard approaches to economics typically promote a free market stance suggesting that should markets be able to provide optimal and efficient outcomes for society, then government involvement is not necessary or warranted. In short, this is a recession unlike any in modern history that will create a test for examining the limits of a standard set of simple economic principles. Spending and income means that when an economy experiences a significant drop in overall spending, there will almost inevitably be a drop in income and employment.

Circular flow model illustrates, among other things, that the government receives financial inflows from two sources: taxes and government borrowing. Government borrowing is the preferred method of financing government spending during an economic downturn. In a time of crisis, a government will not increase taxes as it would simply reduce the spending of those being taxed.

There mus be two forms of stabilization policy, fiscal and monetary. In crises, fiscal policy is intended to provide funds for both households and businesses for incentivize spending. Monetary policy relates to government actions to support the financial system, through purchases of bonds so that financial institutions have access to greater quantities of credit. The world is different now than it was before COVID-19 pandemic. Since the outbreak of the pandemic, several extraordinary events have occurred.

Theories and models are abstractions of the real world. COVID-19 pandemic is the real world now. It is required to connect economic theories and models to extraordinary events observed during the COVID-19 era. Instructors who teach economics can use each of the economic events that occurred during the global pandemic to explain relevant economic principles and theories (Zhang & Ramse, 2021).

An Economic theory with an epidemiological model exists in order to explore the long-term impact of the pandemic on economic growth and the effects of different policy responses. Outbreaks of infectious disease reduce labor supply and negatively affect economic output. Meaning, an interdisciplinary model that shows labor supply is dynamically constrained by pandemic conditions.

When the pandemic is under control, resumption of production is feasible, and the economic stimulus package could lead to economic recovery, as an example of calibrated model to Chinese economy. It was found that promoting economic growth should be while a government needs to balance pandemic prevention and control costs benefits when formulating public health policies (Xiang, Tang, Yin, Zheng & Lu, 2021).

Lopez, L., Bianchi, G. (2020) argues proposes a look at the numerous economic factors that determine the degree of damage the pandemic has reeked on hospitality and tourism industry.

Economic theories regarding impact of COVID-19 on hospitality and tourism. According to Keynesian theory which influenced economic thinking, it can be said that Keynes argued that it is the demand that generates supply, at least in the most important short run. The solution would be fiscal and monetary policies. As supply decreases, marginal cost increases, and supply contracts.

This difficult situation for the hospitality and tourism industry is even more severe given that this industry relies on human relationships and social interaction (Lopez & Bianchi, 2020).

Monetary Theory. Abello (2020) argues that there is no reason for currency-issuing governments to tax or borrow. Modern Monetary Theory means taxes and government debt serve different purposes, not only financing the ability of currency-issuing governments to spend. For example, the focus is as well on managing inflation. Critics of Modern Monetary Theory charge that printing too much money will lead to catastrophic inflation, as there would be more money chasing fewer goods.

Modern Monetary Theory worries first about making sure the economy can produce enough of the right mix of goods and services to meet demand such as transportation infrastructure, building laws, to ensure that public and private investment aligns with best possible information about future people's need.

Modern Insider is a global news publication and is considered to be outside mainstream economics as the reality it describes has existed really only since 1971. As Kelton explains in her book that is the year President Richard Nixon ended the "gold standard" - the ability to convert dollars into gold held by Federal Reserve. It was initially temporary, however became permanent in 1973. There are some economists and ideologists who want to return to the gold standard, however there is broad economic consensus that the U.S. will never revert to doing that. Modern Monetary Theory is grounded in institutionally accurate operational realities (Abello, 2020).

According to the MMT theory, deficits are not necessarily a signal of a shaky economy. Should a government create more money, deficits can be easily fixed. This concept is a hallmark of MMT and one of the most controversial aspects of the theory. Governments can create more money without any threat of economic collapse. Proponents of MMT say that the government is as well the creator of money and theoretically can create more. A job guarantee program is possible as government can create more money. MMT theorists support the idea of a federal job guarantee to stabilize the economy. MMT supporters want to do away with increasing and lowering of interest rates as they are ultimately not very relevant when it comes to growth and long-term business decisions (Lockert, 2021). MMT advocates argue that a government should structure macroeconomic programs that directly manage the labor force, pricing mechanisms, and investment projects, and constantly monitor financial developments. Government should be directly involved continuously in economy (Coats, 2019).

Government spending has increased dramatically in response to the ongoing COVID-19 crisis and concerns grow reading how to deal with it. Modern Monetary Theory (MMT) is a policy model for funding government spending. The core message of MMT is that there is no financial constraint on government spending, as a country is a sovereign issuer of currency (Canada and the US are examples). Explanation: a government has the ability to borrow unlimited amount of money from a country's central bank. The central bank can effectively credit a government's bank account at the central bank for an unlimited amount of money. Moreover, a government has the ability to do so without either charging the government interest or demanding repayment of government bonds acquired from the central bank. Government spending in pursuit of a variety of economic and social goals is socially desirable. A first objection to MMT was due to the fact that in 2020, the central banks in both Canada and the US bought a disproportionately large share of government bonds compared to previous years. Thus, a de facto independence of the Bank ultimately exists subject to the will of the Canadian and US governments.

A second objection to MMT is that its implementation will lead even to a hyper-inflation and bad consequences for domestic economies.

From historical experience in Latin America and Greece – the implementation of MMT results in runaway inflation and a significant decline in standards of living in relevant countries.

MMT is most usefully viewed as an alternative option on the monetary and fiscal system rather and not competing them. MMT is theory per se. Its core insight is that governments cannot really "run out of money according to State economic acts". A country creates money after spending it, without the need to raise money, by collecting taxes or issuing bonds. This fact reflects the institutional design of monetary and fiscal system (Sheard, 2019).

Fiscal Theory. Working Papers describe research in progress which argues that findings challenge established views about what constitutes a good combination of fiscal and monetary active policies.

The Fiscal Theory of Price Level (FTPL) means that in a popular class of theoretical models, the price level is occasionally determined by fiscal policy rather than monetary policy. The scientists present an alternative, as a more realistic model, populated by sixty-two generations of people. It means that in the model, price level and real interest rate are indeterminate, even when monetary and fiscal policy are both active (Farmer & Zabczyk, 2019).

Selgin and White (2007) draw on theory and historical evidence to argue that fiscal considerations explain the roles governments typically play in producing and regulating money. They argue that fiscal arrangements do not reflect conscious design so much as the evolutionary survival of the fiscally advantageous. Standards and restrictions on substitutes for government money all generate revenue and especially provide means for meeting fiscal emergencies. The results suggest that the effects of structural shocks are substantially different in the passive monetary-active fiscal regime. A monetary contraction (an increase in the interest-rate) increases the inflation rate persistently. Government spending shock leads to a consumption rise on conventional theory. Demand and aggregate-supply shocks, would cause inflation above (or below) until a steady and stable state (Kim, 2017).

Price theory has provided solutions to myriad of problems affecting society in the standard economic postulate. Fiscal theory has been closely attentive to political, sociological and historical circumstances (Kayaalp, 2004).

A decrease in interest rates creates a situation of excess demand, for example for real-estate, and then prices rise (always an inverse relationship between price of money and level of prices). On the other hand, an increase in government spending or increase in private consumption creates an increase in aggregate demand and increase in prices (Seglin & White, 2007).

There is a need for analysis of the evolution of fiscal thought along national lines. Price theory has provided solutions to myriad of problems affecting society in the standard economic postulate. A fiscal theory is closely attentive to political, sociological and historical circumstances that bear upon the fiscal act. This methodological duality resulted in the development of fiscal theory in line with political culture (Kayaalp, 2004).

Monetary authority is not truly dominant. That is due to the fact that money supply and seignior age are endogenous. In every fiscal authority decisions chooses, the monetary authority must change the money supply to ensure the interest rate target is still satisfied. If a central bank is passive and the fiscal authority is dominant, then fiscal policy has an enormous influence on price level. However, fiscal policy affects prices and inflation only through its effect upon money. Should fiscal authority commit to a budget, the public must adjust its behavior for equilibrium, and this restriction causes price level to go down (Carlstrom & Fuerst, 2000).

Conclusions. Dealing with the reaction to COVID-19 pandemic, can be better understood by means of two fundamental concepts of Modern Conventional: risk and uncertainty. Macroeconomic policies cannot be the only solution the damages of covid 19 pandemic. This issue is connected to social policies about the concept and state population trust in government to face the COVID-19 pandemic. Therefore, Macroeconomic theories should be modified according to crisis situation, and to international coordination measures. Effective responsive Fiscal and monetary policy is the right way for dealing with the pandemic results.

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