

CONCEPT: INTRODUCTION TO FISCAL POLICY

● **Fiscal Policy** involves setting the level of _____ and _____ by _____

□ Focus specifically on spending and taxes of _____ government

> Government spending is an important part of _____

- More government spending → _____

- Less government spending → _____

> Taxes also influence the level of _____ available for household's _____

- More taxes → _____

- Less taxes → _____

□ Fiscal policy can be **discretionary** or **automatic**

> **Discretionary fiscal policy** – government takes action to change spending or tax levels

- Examples: Tax decrease passes through Congress; \$100B project to expand highway system

> **Automatic Stabilizer** – Spending and taxes that change automatically throughout the business cycle

<u>Taxes during an economic boom</u> Economy expanding → GDP, Inflation, Income _____ → Taxes _____	<u>Unemployment insurance during an economic boom</u> Economy expanding → GDP, Inflation, Income _____ → Government unemployment payments _____
<u>Taxes during an economic recession</u> Economy contracting → GDP, Inflation, Income _____ → Taxes _____	<u>Unemployment insurance during an economic recession</u> Economy contracting → GDP, Inflation, Income _____ → Government unemployment payments _____