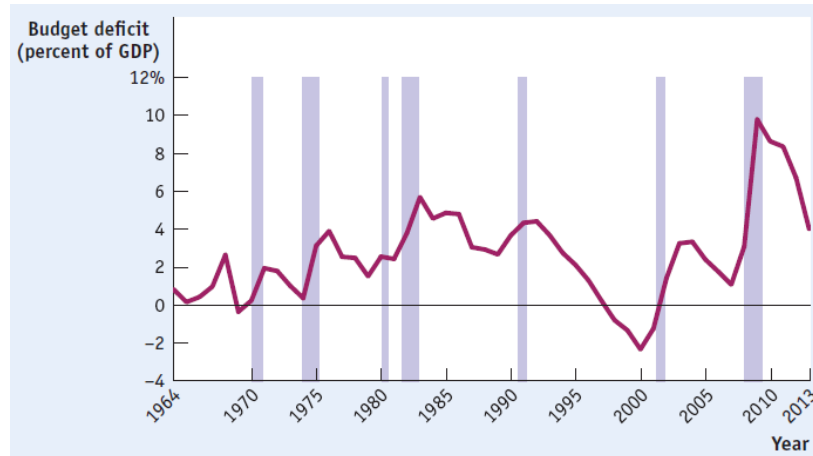


CONCEPT: BUDGET DEFICIT AND SURPLUS

- The government **budget** involves the inflows of _____ and the outflows for _____ and _____

$$\text{Government Savings} = \text{Tax Revenue} - \text{Government Purchases} - \text{Government Transfers}$$

- ☐ **Budget Surplus** – when inflows from tax revenues _____ the outflows from purchases and transfers
- ☐ **Budget Deficit** – when inflows from tax revenues _____ the outflows from purchases and transfers



- ☐ During recessions, government spending _____ leading to a larger _____
 - > The size of the budget deficit or surplus is dependent on the business cycle (i.e. recessions, expansions)
- ☐ **Cyclically Adjusted Budget Deficit or Surplus:**
 - > The government's budget deficit or surplus if the economy were at its _____ (long-run) GDP
 - > **Automatic Stabilizer** – Spending and taxes that change automatically throughout the business cycle

Recession → Income _____ → Taxes _____

Expansion → Income _____ → Taxes _____

