

Evaluating Fiscal Policy (Year 12)

Review your knowledge

Note down 9 key terms/phrases relating to fiscal policy in the grid below, and then test yourself against the tutor2u Bingo Ball machine on the accompanying video. Add any additional words/phrases that you didn't think of in the space provided below the grid.

Additional words/phrases:

The Laffer Curve

Note down 3 reasons why total tax revenue may fall as the tax rate rises:

- 1.
- 2.
- 3.

Draw and label a Laffer curve in the space below	Briefly explain the shape of your diagram



Note down 3 evaluation points in relation to Laffer curves:

- 1.
- 2.
- 3.

Introduction to macro trade-offs

What is meant by a trade-off?

Suppose that the government carries out some expansionary fiscal policy in order to achieve economic growth. What might be the impact of this policy on the following macro objectives?

Objective	Impact
Low unemployment	
Low inflation	
Balance of payments	
Protect the environment	
Income distribution	
Balanced budget	

The (short run) Phillips curve

Describe what is shown by the Phillips curve:



Draw a short-run Phillips curve in the space below	Explain the shape of the Phillips curve

Crowding Out

Distinguish between financial crowding out and resource crowding out:

Draw a Neoclassical AD/AS to show the theoretical impact of an increase in government spending on the economy	Explain your diagram below:



Evaluating Crowding Out

Note down 3 reasons why crowding out might not occur in an economy:

- 1.
- 2.
- 3.

Exam-style question

Have a go at the exam-style question given below. The case study material is provided in the accompanying video.

“Discuss the likely impact of Trump’s expansionary fiscal policy on US economic growth”

Discretionary and Automatic Fiscal Policy

Complete the following table:

Type of policy	Definition	Examples
Discretionary fiscal policy		
Automatic fiscal policy		

Explaining automatic fiscal policy using trend diagrams

Draw a trend diagram and indicate the different points in the economic cycle:



Explain why automatic stabilisers lead to a cyclical budget surplus in a boom	Explain why automatic stabilisers lead to a cyclical budget deficit in a slump

Austerity measures v government spending

Briefly explain how 'austerity measures' could lead to rising economic growth
Briefly explain how rising government spending could lead to rising economic growth

Outline some of the key features of the UK government's austerity programme following the Global Financial Crisis / Great Recession:

