

## Introduction to Fiscal Policy

### Thinking activity:

Note down the main government macroeconomic objectives:

Government macroeconomic policy is intended to help governments achieve these objectives. Governments usually need to use a mix / range of different policies to help them achieve their objectives.

### Types of Macro Policy

Outline what is meant by each of the categories of macro policy, and note down some examples:

Policy Type	Description	Examples
Fiscal Policy		
Monetary Policy		
Supply Side Policy		

### Fiscal Policy Key Terms

For each of the definitions below, provide the correct matching key term:

The rate of interest paid on government debt	
Government spending > tax revenue	
A budget / fiscal deficit that occurs as a result of changes in real GDP i.e. the economic cycle	
Taxes on income, profits and wealth, that are paid directly from the bearer's income	
Taxes levied on the sale of goods/services	
The total amount owed by a government i.e. the accumulation of budget deficits	



### What is fiscal policy used for?

Note down 5 reasons why governments choose to use fiscal policy:

- 1.
- 2.
- 3.
- 4.
- 5.

### Progressive and Regressive Taxes

Outline the difference between a progressive tax and a regressive tax:

Give examples of progressive taxes and regressive taxes in the UK:

### Types of government spending

Complete the following table.

	Transfer payments	Current spending	Capital spending
Explanation			
Examples			



## UK Fiscal Policy

Note down the key features of UK government spending and tax.

Government spending	Tax

## Fiscal Policy – AD/AS analysis

Explain the impact of each of the following aspects of fiscal policy on AD and AS

	AD	SRAS	LRAS
Government current spending			
Government capital spending			
Direct taxes			
Indirect taxes			



Indicate the impact on AD, SRAS and LRAS of each of the following fiscal policy actions:

Policy Action	AD	SRAS	LRAS
Falling rate of corporation tax			
Rising government spending on healthcare			
Increase in the rate of capital gains tax			
Rise in the rate of VAT			
Reduction in the value of welfare payments			
Fall in the rate of all excise duties			
Increase in the rate of National Insurance contributions			

Explain what is meant by:

- i) Expansionary fiscal policy
- ii) Contractionary fiscal policy

### Written Task

1. Choose **one** fiscal policy and **one** economic impact from the lists below. Write an analytical chain to connect the two.
2. Then select a different "pairing" and repeat the exercise.

You can submit your work to your teacher for assessment.

Changes to Fiscal Policy
<ul style="list-style-type: none"><li>• Rising income tax rates</li><li>• Rising government spending on Higher Education</li><li>• Fall in the rate of VAT</li><li>• Increase in the value of welfare payments</li></ul>

Impact on the Economy
<ul style="list-style-type: none"><li>• Economic growth</li><li>• Unemployment</li><li>• Inflation</li><li>• Inequality</li></ul>



