

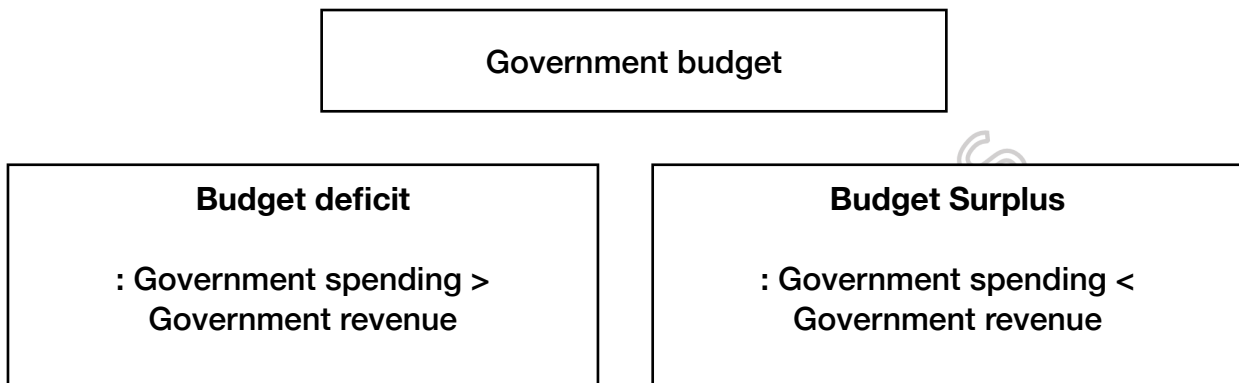
## Chapter 26

### Fiscal Policy

#### Key terms

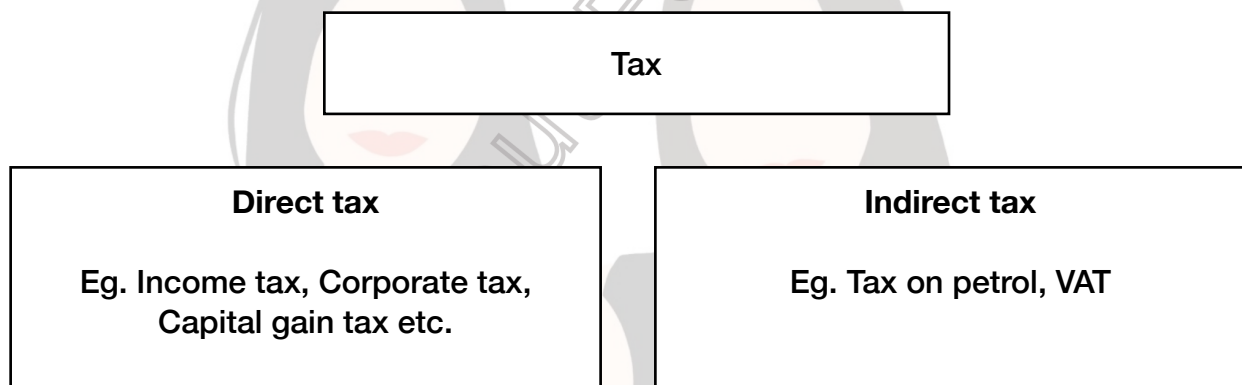
1. Budget : the relationship between government revenue and government spending.
2. Budget deficit : government spending is higher than government revenue.
3. Budget surplus : government revenue is higher than government spending.
4. National debt : the total amount the government has borrowed over time.
5. Multiplier effect : the final impact on aggregate demand being greater than the initial change.
6. Direct taxes : taxes on income and wealth.
7. Indirect taxes : taxes on expenditure.
8. Progressive tax : one which takes the larger percentage of income or wealth of rich.
9. Proportional tax : one which takes the same percentage of income or wealth for all taxpayers.
10. Regressive tax : one which takes a larger percentage of the income or wealth of the poor.
11. Automatic stabilisers: forms of government expenditure and taxation that reduce fluctuations in economic activity without any change in policy.
12. Inflation : the rise in the price level of goods and services overtime.
13. Informal economy : that part of the economy that is not regulated, protected or taxed by the government.
14. Flat taxes : taxes with a single rate.
15. Fiscal policy : decisions on government spending and taxation to influence aggregate demand.
16. Expansionary fiscal policy : rises in government expenditure and a cut in tax to increase aggregate demand.
17. Contraction any fiscal policy : cuts in government expenditure and a rise in taxation to decrease aggregate demand

## 1. Government Budget



## 2. Categories of tax

### 2.1 Direct & Indirect tax



### 2.2 Progressive tax Proportional tax and regressive tax

- Progressive tax : Income rises, the rate of tax also increases. Eg. Income tax
- Proportional tax : Income rises, percentage paid in tax stays the same.
- Regressive tax : Income rises, the percentage paid in tax falls Eg. Tax on petrol

### 3. Fiscal policy

#### Fiscal Policy

##### Expansionary fiscal policy

- **Increase government spending**
  - :  $AD = C + I + G + NX$  increases
  - : Job created
  - : Increases national output and employment
- **Cutting a tax**
  - : People have more disposable income
  - : More ability to pay goods and services
  - : It can increase national output and employment

##### Contractionary fiscal policy

- **Decrease government spending**
  - :  $AD = C + I + G + NX$  decreases
  - : Job created will be lower
  - : Decreases national output and employment
- **Increasing a tax**
  - : People have less disposable income
  - : Less ability to pay goods and services
  - : It can decrease national output and employment