

5.2 Fiscal policy

Name: _____ Class: _____ Date: _____

Total: 27 marks

KEY WORDS fiscal policy

• budget

• regressive

• budget deficit

• progressive tax

Objective

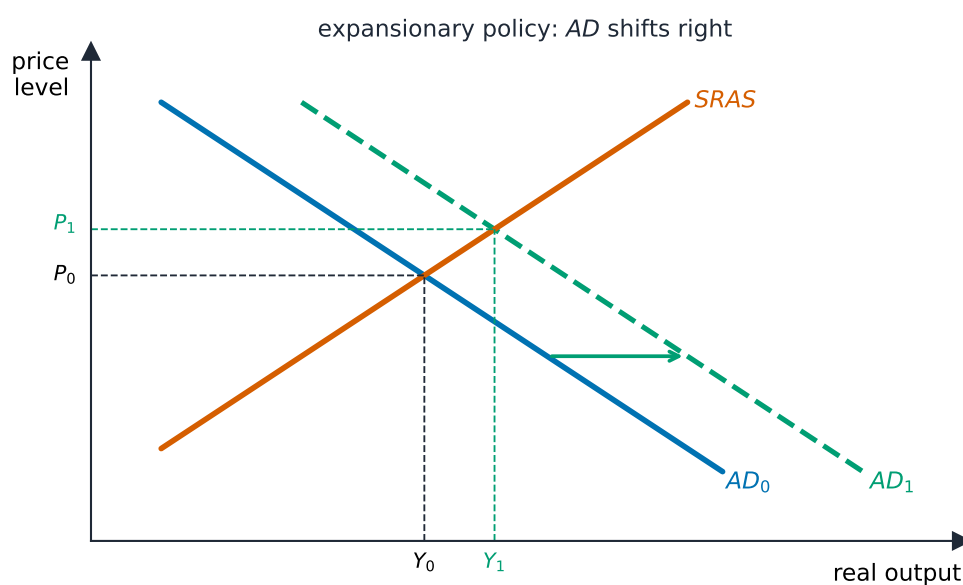
Build the skills to answer exam questions on **fiscal policy** – the **budget** (deficit/surplus), types of tax (**direct/indirect, progressive/proportional/regressive** / / / /), **expansionary and contractionary** policy, and **crowding out** .

You must be able to:

- define fiscal policy, budget deficit and surplus
- classify taxes and explain expansionary vs contractionary policy
- analyse the effectiveness of fiscal policy (including crowding out)

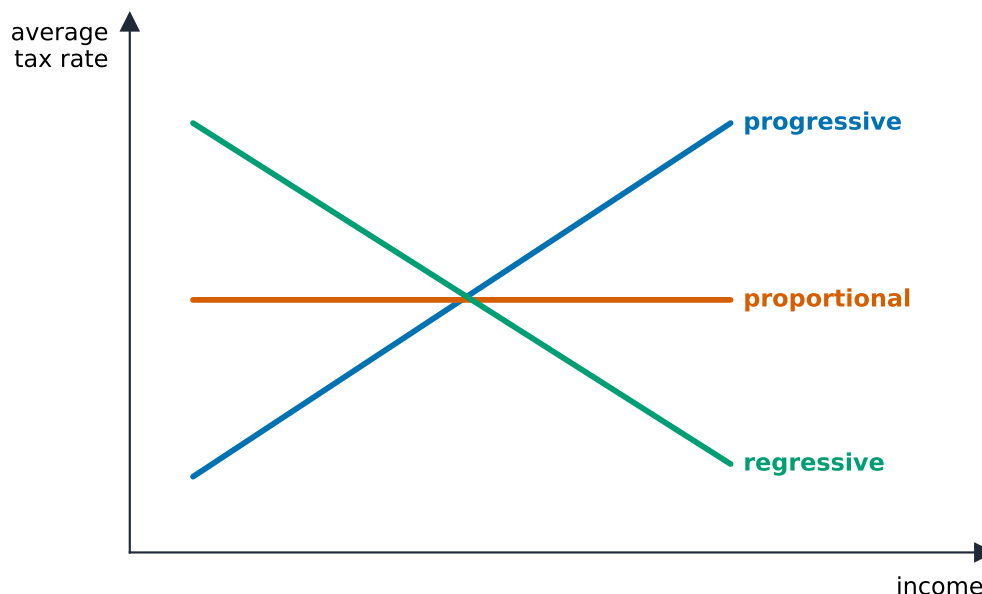
1 Key knowledge and worked examples

■ Using government spending and tax



Contractionary policy does the reverse

- **Budget deficit** : spending > tax (must borrow → **national debt**). **Surplus**: tax > spending.
- **Progressive tax** : rate rises with income; **regressive** : rate falls with income.



The main tax types a government uses on the revenue side of fiscal policy

- **Expansionary** (more G / lower T) → AD right (fights recession); **contractionary** → AD left (fights inflation).
- **Crowding out** : heavy government borrowing raises interest rates → less private investment.

Answer shapes: an **Explain** [up to 8] answer may use an AD–AS diagram (AO3); **Discuss** [12] adds a judgement (AO4).

2 Practice

2.1 Define the term *budget deficit*. [2]

2.2 State the difference between a *progressive* and a *regressive* tax. [2]

2.3 State two tools of expansionary fiscal policy.

[2]

3 Exam-style questions

3.1 Expansionary fiscal policy involves:

[1]

- ☐ **A** higher taxes and lower government spending
B lower taxes and higher government spending
C a higher interest rate
D selling state-owned firms

3.2 Using an AD–AS diagram, explain how expansionary fiscal policy could reduce unemployment.

[8]

3.3 Discuss whether fiscal policy is an effective way to reduce unemployment. [12]