Exercise walk-through

Automatic Stabilizers ▪ 3.9

eXercise

You must be able to

- define **automatic stabilizers 自动稳定器** as features that dampen the cycle without new laws
- explain how **progressive taxes 累进税** and **transfer payments 转移支付** act automatically
- distinguish automatic stabilizers from **discretionary 相机抉择** fiscal policy

Method — Automatic stabilizers

Built-in features that soften the business cycle **without any new legislation**.

Method — How they work

- **Progressive taxes** — in a boom, incomes and tax revenue rise automatically, cooling AD.
- **Transfers** — in a recession, unemployment benefits rise automatically, supporting AD.

Method — Vs discretionary policy

Discretionary fiscal policy needs a **deliberate new law** (e.g. a stimulus package); stabilizers act on their own.

Practice 2.1 ▪ 1 mark

Define an automatic stabilizer.

Solution 2.1

Worked steps

a feature of the economy that dampens the business cycle automatically, without new laws **B1**.

Practice 2.2 ▪ 2 marks

Give two examples of automatic stabilizers.

Solution 2.2

Method: Automatic stabilizers

Worked steps

progressive taxes; transfer payments such as unemployment benefits B1 B1 .

Practice 2.3 ▪ 1 mark

State the difference between automatic and discretionary fiscal policy.

Solution 2.3

Method: Vs discretionary policy

Worked steps

automatic stabilizers act without new laws; discretionary policy requires deliberate new legislation **B1**.

Exam-style 3.1 ▪ 1 mark

An automatic stabilizer works

A only when a new law is passed

B without any new legislation

C through the central bank

D by changing interest rates

Solution 3.1

- **A** only when a new law is passed
- **B** without any new legislation ✓
- **C** through the central bank
- **D** by changing interest rates

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

Which of these is an automatic stabilizer?

A a newly passed stimulus law

B unemployment benefits

C an interest-rate cut

D a new tariff

Solution 3.2

- **A** a newly passed stimulus law
- **B** unemployment benefits ✓
- **C** an interest-rate cut
- **D** a new tariff

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

The economy enters a recession.
(a) State what happens to unemployment-benefit payments.
(b) State the effect on AD.
(c) State whether this required new legislation.

Solution 3.3

Method: How they work

Worked steps

(a) they rise **B1**. (b) AD is supported (does not fall as far) **B1**. (c) no **B1**.