

# 3.9 Automatic Stabilizers

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

Total: 9 marks

## Objective

Build the skills to answer exam questions on **automatic stabilizers**.

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

## 1 Worked examples

Study these first. Each one shows the method for a question type used later.

### ■ Automatic stabilizers

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

### ■ 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.

### ■ Vs discretionary policy

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

## 2 Practice

2.1 Define an automatic stabilizer. [1]

2.2 Give two examples of automatic stabilizers. [2]

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**2.3** State the difference between automatic and discretionary fiscal policy. [1]

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### 3 Exam-style questions

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**3.1** An automatic stabilizer works [1]

- **A** only when a new law is passed
  - **B** without any new legislation
  - **C** through the central bank
  - **D** by changing interest rates
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**3.2** Which of these is an automatic stabilizer? [1]

- **A** a newly passed stimulus law
  - **B** unemployment benefits
  - **C** an interest-rate cut
  - **D** a new tariff
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**3.3** The economy enters a recession.

(a) State what happens to unemployment-benefit payments. [1]

(b) State the effect on AD. [1]

(c) State whether this required new legislation. [1]

### 4 Go further

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- work through the **3.9 Automatic Stabilizers** lesson on the **Learn** page;
- read the **National Income and Price Determination** section of the AP Macroeconomics handout on the **Know** page.

## Solutions

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

**2.2** progressive taxes; transfer payments such as unemployment benefits.

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

**3.1 B.**

**3.2 B.**

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