

3.9 Automatic Stabilizers

Name: _____ Class: _____ Date: _____ **Total: 9 marks**

KEY WORDS discretionary 相机抉择 • automatic stabilizers 自动稳定器
• transfer payments 转移支付 • progressive taxes 累进税 • fiscal policy 财政政策

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]

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

3 Exam-style questions

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

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

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]

Solutions

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.