3.8 Fiscal Policy

Name: ______________ Class: __________ Date: ____________ **Total: 8 marks**

KEY WORDS fiscal policy 财政政策 • expansionary 扩张性 • contractionary 紧缩性 • recessionary gap 衰退缺口 • inflationary gap 通胀缺口

Objective

Build the skills to answer exam questions on **fiscal policy**.

You must be able to:

- define **fiscal policy 财政政策** as government spending and taxes
- distinguish **expansionary 扩张性** from **contractionary 紧缩性** fiscal policy
- apply the **spending** and **tax multipliers** to estimate the change in output
- relate a fiscal choice to closing a recessionary or inflationary gap

1 Worked examples

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

Fiscal policy

The government's use of **spending** and **taxes** to influence aggregate demand.

Expansionary vs contractionary

- **Expansionary** (more spending or lower taxes) → AD **right**; used to close a **recessionary** gap.
- **Contractionary** (less spending or higher taxes) → AD **left**; used to close an **inflationary** gap.

Sizing the policy

Use the spending multiplier: the spending change needed $= \dfrac{\text{output gap}}{\text{multiplier}}$.

2 Practice

2.1 Define fiscal policy. [1]

2.2 State the type of fiscal policy used to close a recessionary gap. [1]

2.3 State the effect of expansionary fiscal policy on AD. [1]

3 Exam-style questions

3.1 Expansionary fiscal policy involves [1]

A cutting government spending
B raising taxes
C increasing government spending
D raising interest rates

3.2 To fight high inflation, the government should use _________ fiscal policy. [1]

A expansionary
B contractionary
C monetary
D no

3.3 An economy is in a recessionary gap of \$100 billion, with $MPC = 0.8$.

(a) Name a fiscal tool that could close it. [1]

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

(c) Find the rise in government spending needed. [1]