

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 = $\frac{\text{output gap}}{\text{multiplier}}$.

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 | B |
| C | D |
- 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 | B |
| C | D |
- 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]