3 Aggregate supply and fiscal policy – Part 2

Name: __________ Class: ________ Date: ________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)
Aggregate supply	总供给	
recessionary gap	衰退缺口	
Fiscal policy	财政政策	

Recall

In Part A you met aggregate demand. Now the supply side and how governments respond:

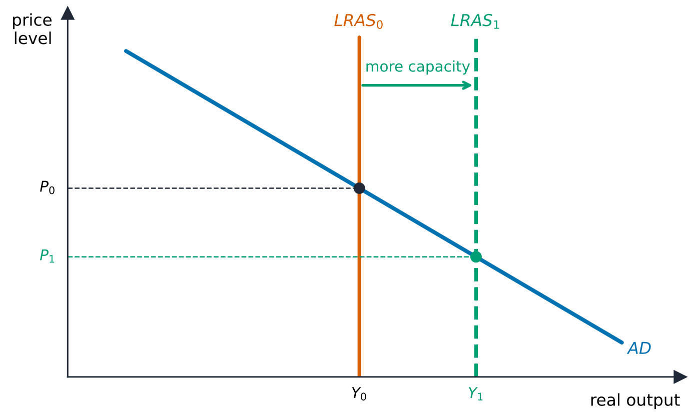
- Firms supply more output when it is profitable to do so.
- Governments can change spending and taxes to steer the economy.

Each idea has a worked example before the Practice.

New ideas

■ 1 Aggregate supply

Aggregate supply 总供给 is the total output firms produce at each price level. In the short run it slopes **upward**; in the long run it is **vertical** at the economy's full-employment output.

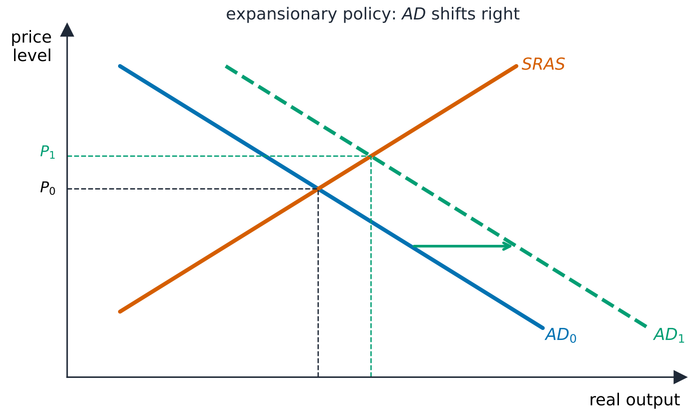


■ 2 Equilibrium and gaps

The economy settles where aggregate demand meets aggregate supply. If output is **below** full employment, there is a **recessionary gap** 衰退缺口 (unemployment); if **above**, an inflationary gap (overheating).

■ 3 Fiscal policy

Fiscal policy 财政政策 is the government's use of spending and taxes to shift aggregate demand:



- **expansionary** (more spending or lower taxes) shifts AD **right** to fight a recession,
- **contractionary** (less spending or higher taxes) shifts AD **left** to fight inflation.

■ **4 Choosing the policy**

To close a recessionary gap, the government uses expansionary fiscal policy; to cool an overheating economy, it uses contractionary policy.

Watch out: a **tax cut** and a **spending increase** both boost aggregate demand, but a tax cut is **weaker** dollar-for-dollar, because people save part of the extra money instead of spending all of it.

Practice

Try these in order. The methods are all above.

2.1 State the shape of short-run and long-run aggregate supply. [2]

2.2 State what a recessionary gap is. [2]

2.3 State whether expansionary fiscal policy shifts AD left or right, and give one way to do it. [2]

2.4 A country is in a recession. State the fiscal policy it should use and why. [2]

2.5 Explain why a tax cut boosts demand less than an equal rise in government spending. [2]