Syllabus Reference 3.1: The Macro Economy Flow Chart Showing the Role for Government in the Economy

Webnote 006

Government

Fiscal Policy

National Debt

Current Spending:

- social welfare
- government employees
- defence
- education
- health
- old age pensions
- debt repayments

Capital spending

Infrastructure:

- airports
- housing
- road + rail
- schools
- telecommunications

Government revenues

- Tax policy:

1. Direct- progressive
2. Indirect- regressive

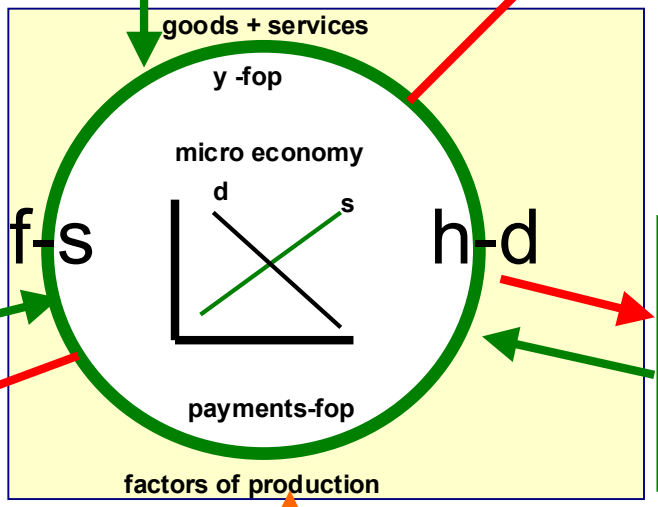
- Tax revenues

1. Direct:
   - Paye / income
   - inheritance-tax
   - corporation tax
2. Indirect:
   - vat /sales tax
   - tariffs
3. State firms
4. State Lottery

= Leakage (L)

= Injection (J)

= role for G



ForeignTrade

Policy

1 EXPORTS (j)

2 IMPORTS (L)

Key issues:

- Balance of Trade
- Terms of Trade
- Balance of Payments

Monetary Policy

- Interest rates
- Money supply
- Exchange rate
- National debt
- inflation

How?

1. Legislation
2. Fiscal policy
3. Monetary policy
4. Direct intervention
   e. g. prices + incomes policies
5. Exchange rate policy

Non economic objectives:

- social policy
- essential services
- law and order
- cultural affairs
- internationarelations
- social issues e.g. immigration in the EU

What ?

Economic objectives:

- Employment
- Inflation- stable prices
- Stable currency
- Rising standard of living
- Economic growth
- Economic development
- Regional development
- Balance of trade
- Balanced budgeting
- Redistribution of wealth