

			Webnote	2.4 Fiscal policy Big Questions: <ol style="list-style-type: none"> 1. Explain (with examples) how government can use fiscal policy to achieve 2 of the main economic objectives. 2. Draw + explain 2 detailed diagrams to show how fiscal policy can be used to grow or slow a macroeconomy 3. "Fiscal policy is the most effective policy used by government to manage an economy. Discuss. 		<u>Example</u>	<u>U-tube</u>		
The government budget									
113			Sources of government revenue	<ul style="list-style-type: none"> • Explain that the government earns revenue primarily from taxes (direct and indirect), as well as from the sale of goods and services and the sale of state-owned (government owned) enterprises. 		<u>Example</u>	<u>U-tube</u>	3	
Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E
114			Types of government expenditures	<ul style="list-style-type: none"> • Explain that government spending can be classified into current expenditures, capital expenditures and transfer payments, providing examples of each. 		<u>Example</u>	<u>U-tube</u>	3	

115			The budget outcome	<ul style="list-style-type: none"> • Distinguish between a budget deficit, a budget surplus and a balanced budget. • Explain the relationship between budget deficits/surpluses and the public (government) debt. 	Note: Blink does not appear to cover items 115-119 effectively so I will give you additional sources here.	<u>Example</u>	<u>U-tube</u>	3	
The role of fiscal policy									
116			Fiscal policy and short-term demand management	<ul style="list-style-type: none"> • Explain how changes in the level of government expenditure and/or taxes can influence the level of aggregate demand in an economy. • Describe the mechanism through which expansionary fiscal policy can help an economy close a deflationary (recessionary) gap. • Construct a diagram to show the potential effects of expansionary fiscal policy, outlining the importance of the shape of the aggregate supply curve. • Describe the mechanism through which contractionary fiscal policy can help an economy close an inflationary gap. • Construct a diagram to show the potential effects of contractionary fiscal policy, outlining the importance of the shape of the aggregate supply curve. 		<u>Example</u>	<u>U-tube</u>	4	
117			The impact of automatic stabilizers	<ul style="list-style-type: none"> • Explain how factors including the progressive tax system and unemployment benefits, which are influenced by the level of economic activity and national income, automatically help stabilize short-term fluctuations. 		<u>Example</u> Portugal uses bond market to increase government spending: Portugal held a sale of its 10-year bonds	<u>U-tube</u>	3	

					<p>today for the first time since it needed a bailout in 2011.</p> <p>The sale represents a milestone in its efforts to regain investor confidence and prove its contested austerity policies are paying off. Portugal had not sold long-term debt since it needed a €78 billion rescue two years ago.</p> <p>The three major international ratings agencies downgraded Portugal's credit worthiness to junk status as the debt-heavy country fell victim to the euro zone financial crisis that unnerved investors.</p> <p>Growing concerns that Portugal had too much debt and too little growth made markets uneasy about lending it money.</p> <p>Source: rte.ie</p>			
118		Fiscal policy and its impact on potential	<ul style="list-style-type: none"> • Explain that fiscal policy can be used to promote long-term economic growth (increases in potential output) 		Example	U-tube	4	

			output	indirectly by creating an economic environment that is favourable to private investment, and directly through government spending on physical capital goods and human capital formation, as well as provision of incentives for firms to invest.					
119			Evaluation of fiscal policy	<ul style="list-style-type: none"> Evaluate the effectiveness of fiscal policy through consideration of factors including the ability to target sectors of the economy, the direct impact on aggregate demand, the effectiveness of promoting economic activity in a recession, time lags, political constraints, crowding out, and the inability to deal with supply-side causes of instability. 		<u>Example</u>	<u>U-tube</u>	5	
Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E

TOK

Theory of knowledge: potential connections

In one sense the imposition of taxes by government on individuals amounts to a restriction of individual freedom. How can we know when such government interference in individual freedom is justified?