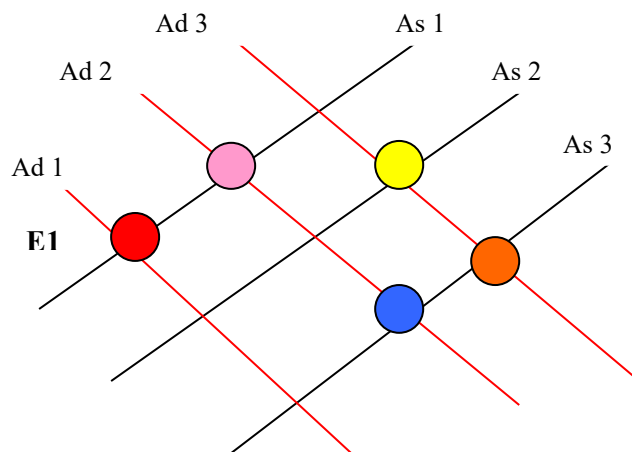




Syllabus Reference 3.6: Fiscal policy**Cross Reference:** see [webnote 300 re circular flow of income for a macroeconomy syllabus 3.1](#)**Fiscal policy**

- Spending and revenue plan for government
- Allows government to control essential injections and leakages into the macroeconomy
- Main components of fiscal policy are incomes and expenditures
- Forms the key macro management tool for government (the other key policy is monetary policy)



As /Ad modelPrice
Level

0

real gdp

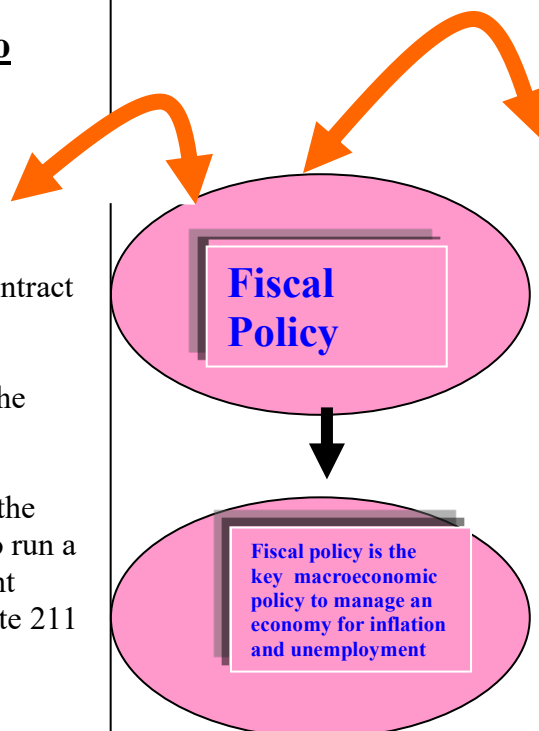
As /ad modelFiscal policy can be used to promote growth /inflate  to 

Or to

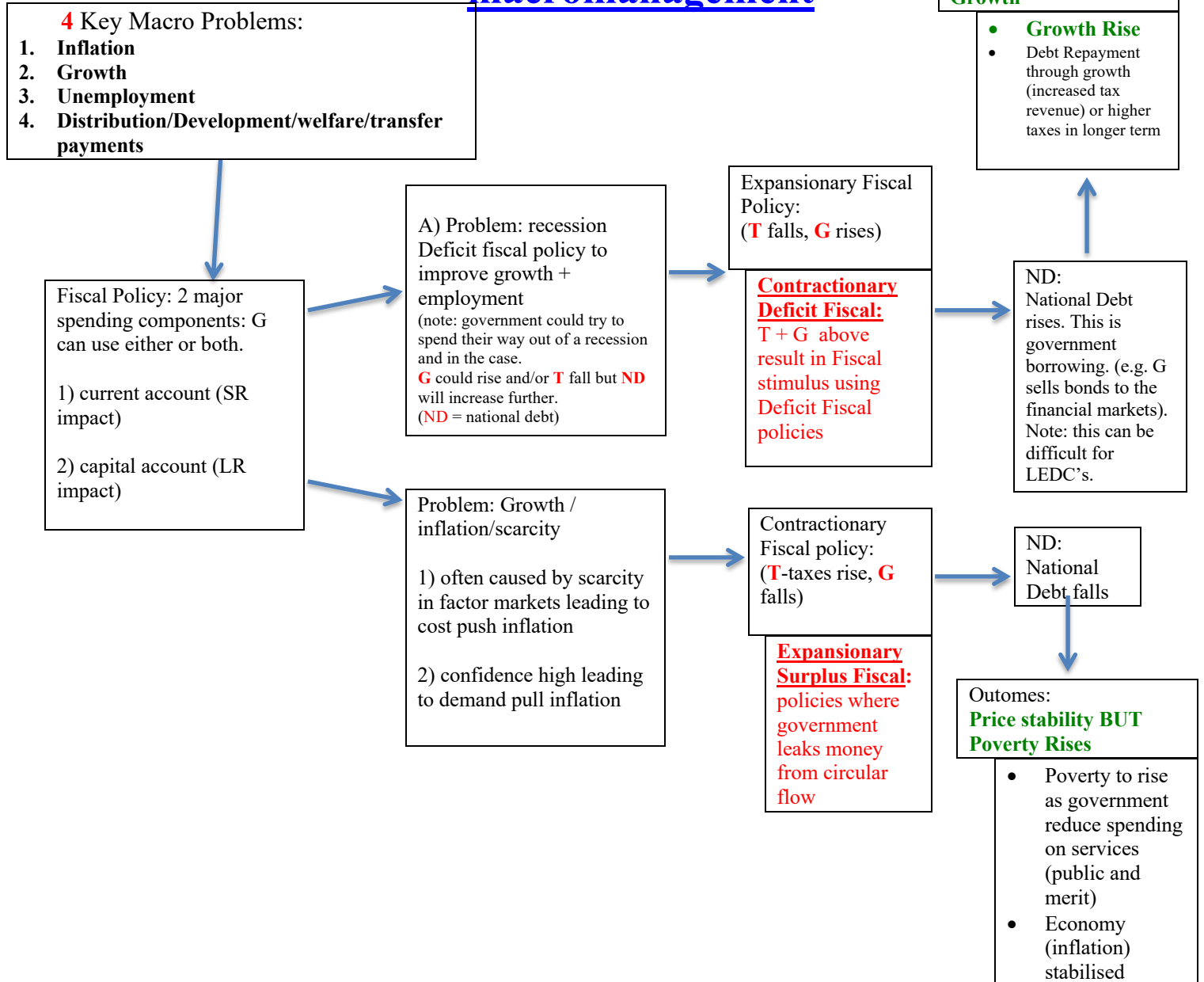
disinflation the economy  to cross reference:
see inflationary and deflationary gaps on webnote 328 (syllabus 2.2)**Government macro
Management
e.g fiscal**

e.g. Taxation:

1. raise taxes to contract economy
2. reduce taxes to inflate/expand the economy
3. borrowing/ indebtedness if the government want to run a deficit on the current account- see webnote 211 for current account



Fiscal Policy: 2 fiscal options for macromanagement



Note: Review webnote 211 in section 3.1

Reading:

- McGee 377