**Syllabus Reference 2.4: Fiscal policy**

***Webnote 242***

***Syllabus Item(s):***

### Cross Reference: see webnote 300 re circular flow of income for a macroeconomy syllabus 2.1

**Fiscal policy**

* **Spending and revenue plan for government**
* **Allows government to control essential injections and leakages into the macroecomomy**
* **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 model**

Fiscal policy can be used to promote growth /inflate  to 

0r to

disinflate the economy  to 

cross reference:

see inflationary and deflationary gaps on webnote 328 (syllabus **2.2**)

**As /Ad model**

**real gdp**

**Price Level**

Ad 1

Ad 2

Ad 3

As 1

As 2

As 3

**E1**

**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**

**Fiscal policy is the key macroeconomic policy to manage an economy for inflation and unemployment**

***Reading:***

* McGee 377