




Fiscal Policy



SSEMA3: Explain How the Government uses Fiscal Policy to promote price stability, full employment, and economic Growth

- Goal:

- For you to be able to explain how Congress and the President work together to achieve the Three goal of Macro Econ.
- For you to be able to explain how the government responds to the different stages of the business cycle.


SSEMA3.a Define Fiscal Policy





Fiscal Policy

- The federal government's decisions it makes about taxing and spending in order to promote economic growth and stability

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- Any form of money the gov't takes in or spend falls under the fiscal policy umbrella
 - How does the Government Spend money?
 - How does the Government take in money?

SSEMA3.b Explain the effect on the economy of the government's taxing and spending decisions in promoting price stability. Full employment, and economic growth


FISCAL POLICY AIMS TO ACHIEVE 3 ECONOMIC GOALS

The 3 economic goals of fiscal policy:

- **economic growth** (increase production/GDP)
- **full employment** (no cyclical unemployment)
- **price stability** (keep inflation under control)

Taxing & Spending Decisions





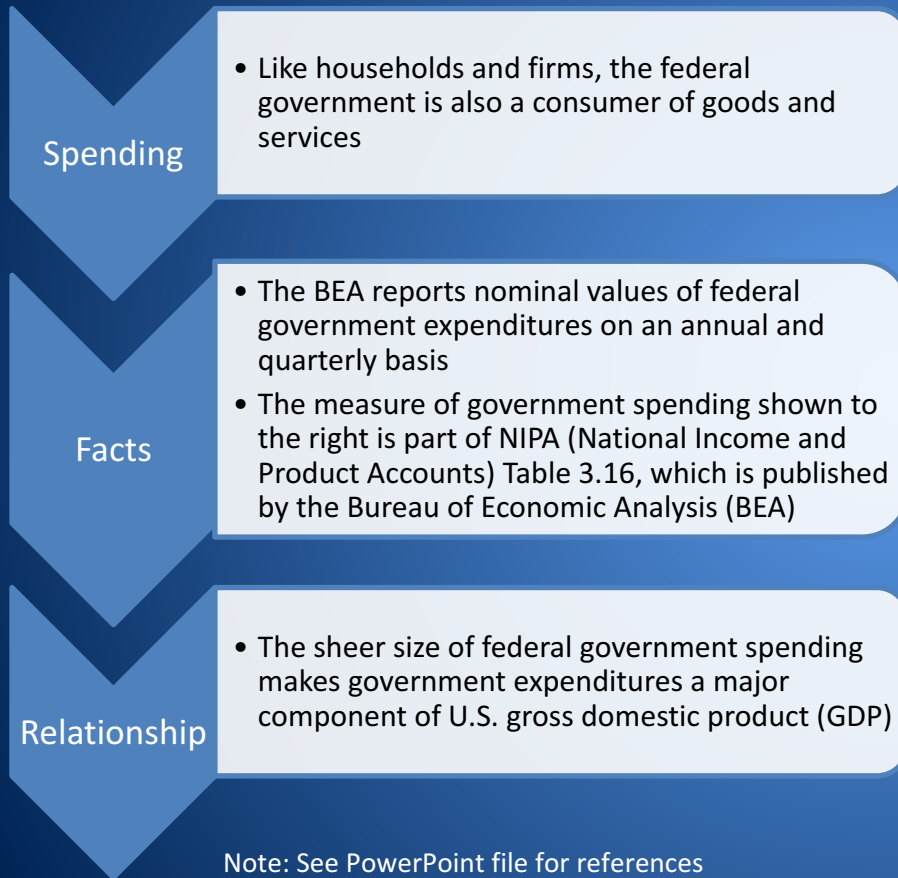
➡ Taxes- Revenue the government creates from individuals' working wages.



Government Spending

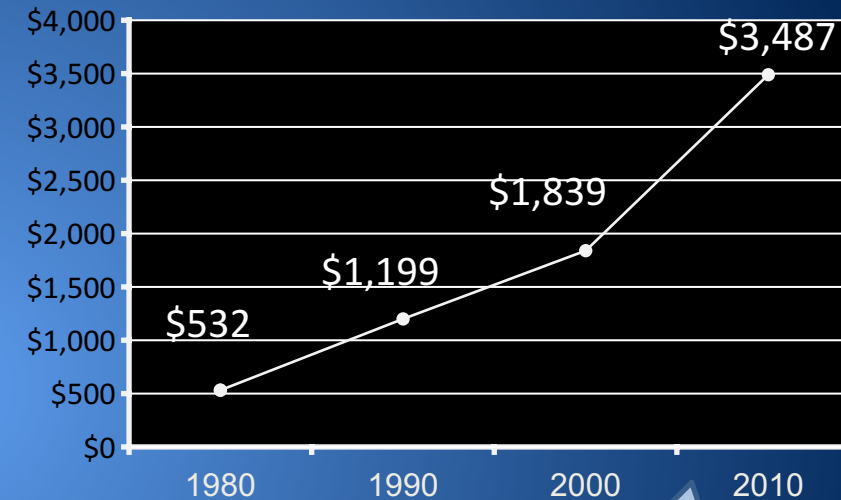


Government Spending – Did You Know?



Federal Government Current Expenditures

(\$billions, nominal annual values for years shown)

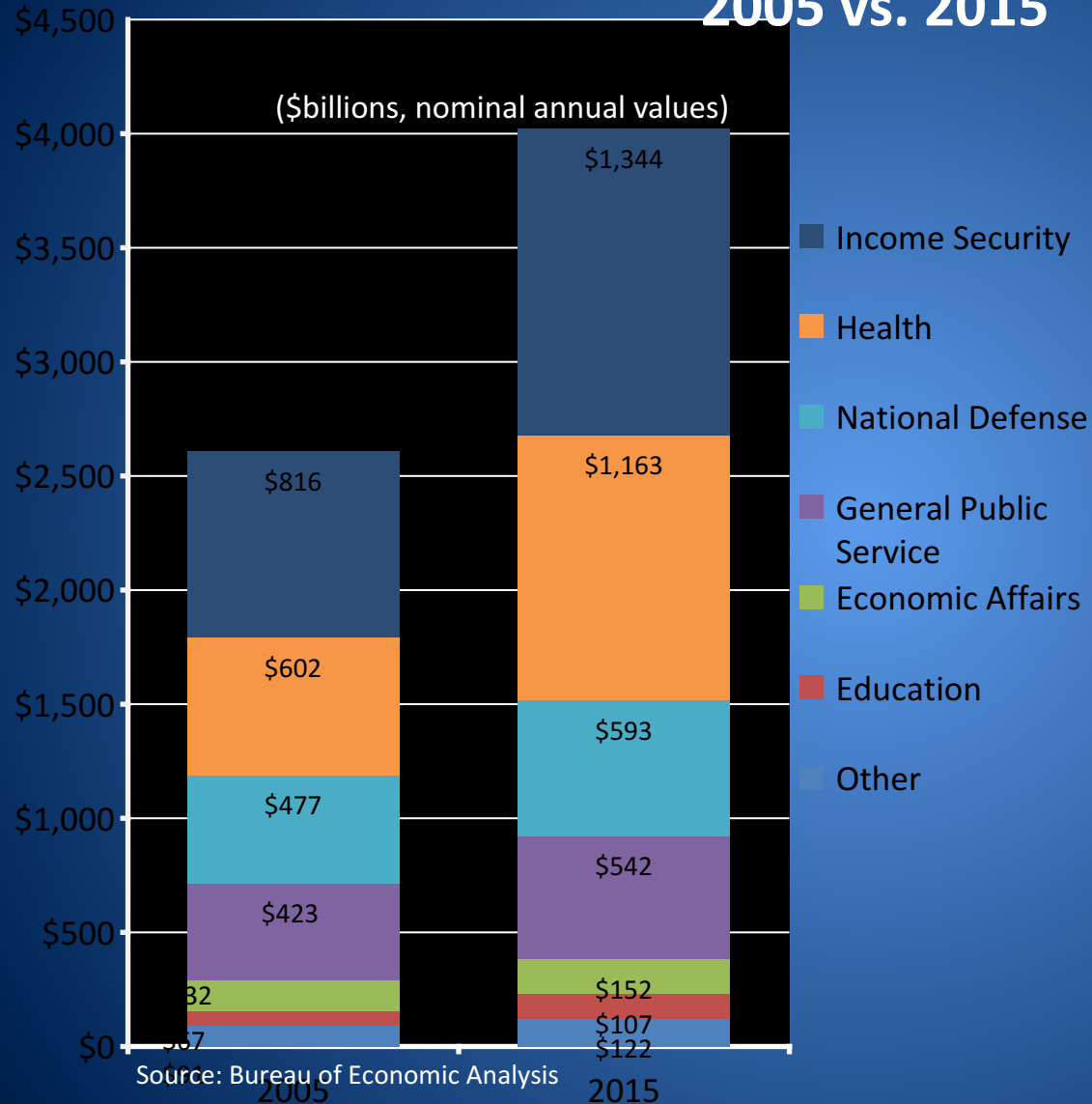


Source: Bureau of Economic Analysis

Nominal government spending has grown over time. Its value in 2000 was more than triple that in 1980.

Government Spending by Function

2005 vs. 2015



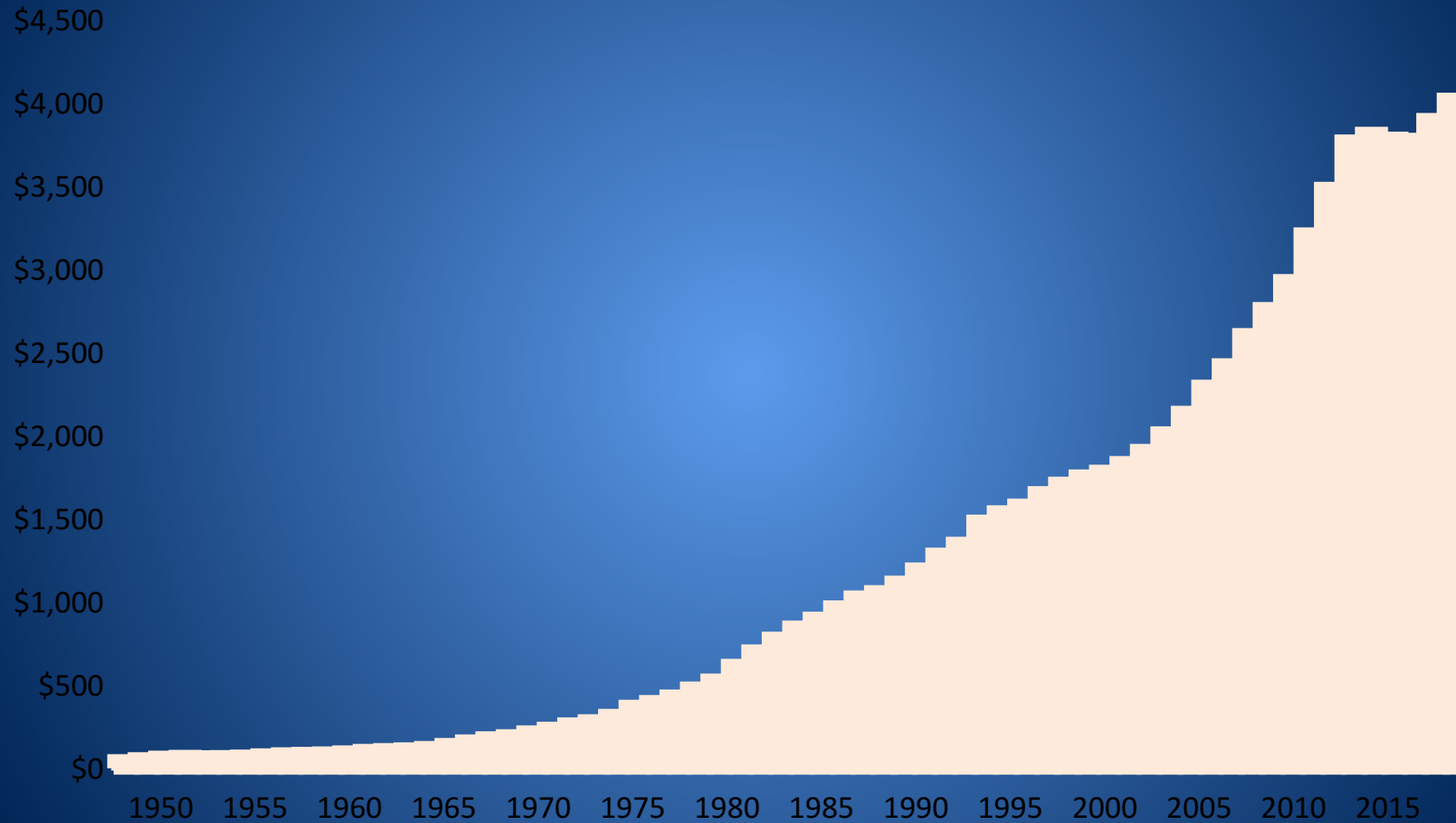
Together, income security and national defense account for almost 50% of all federal spending.

Nominal spending on health increased 93% between 2005 and 2015.

Overall, nominal federal spending increased 54% between 2005 and 2015.

Federal Government Current Expenditures

Nominal annual values (\$billions) through 2015



Source: Bureau of Economic Analysis

What Do You Think?

1. In general, how did spending on education in 2005 compare to 2015? (See slide 3)
2. What was total government spending in 2005? In 2015? (See slide 3)
3. What percentage of federal spending went to education in 2005? In 2015? (See slide 3)
4. What was the largest category of government spending in 2005? In 2015? (See slide 3)



When does the gov't
spend money?



Increasing Price Level

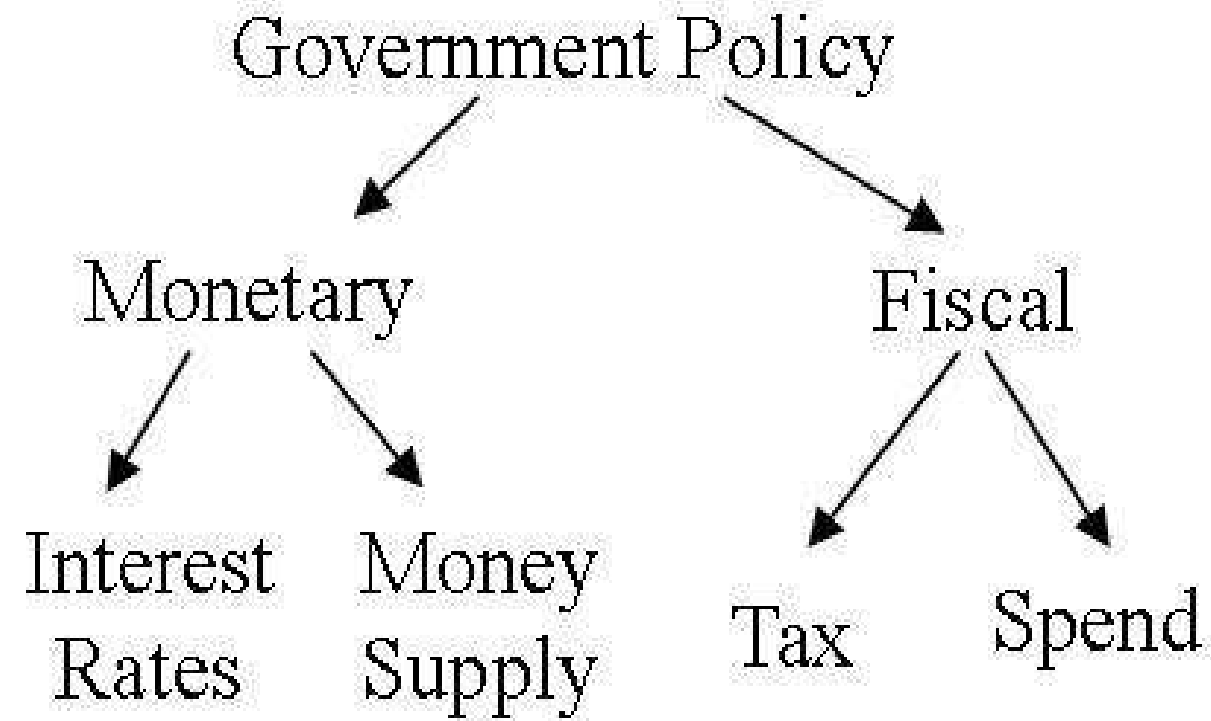
- Contractionary Fiscal Policy
 - Curb Inflation
 - 1. Lower government spending
 - 2. Increase Taxes
 - These policies take money out of the economy.
 - Fewer Firms earning money from the Gov't contracts
 - Lowers Consumption & Investment spending
 - Eventually reducing inflation

Promoting Full Employment & Economic Growth when Price Level is not a concern.

- The government uses tools designed to increase consumption and investment spending in an economy.
- Lowering taxes allows people to keep more of their income for spending on goods and service
- Increasing Government spending, more firms and workers can earn money from government contracts and jobs
- Household spend some of this additional income on goods and services, increasing economic activity.

TOGETHER: MONETARY AND FISCAL POLICY TOGETHER

- **The Federal Reserve and Congress Both want to correct the economy the best combination in achieving this goal is through increasing government spending, sell treasury bonds, but taxes, and buy treasury bonds.**



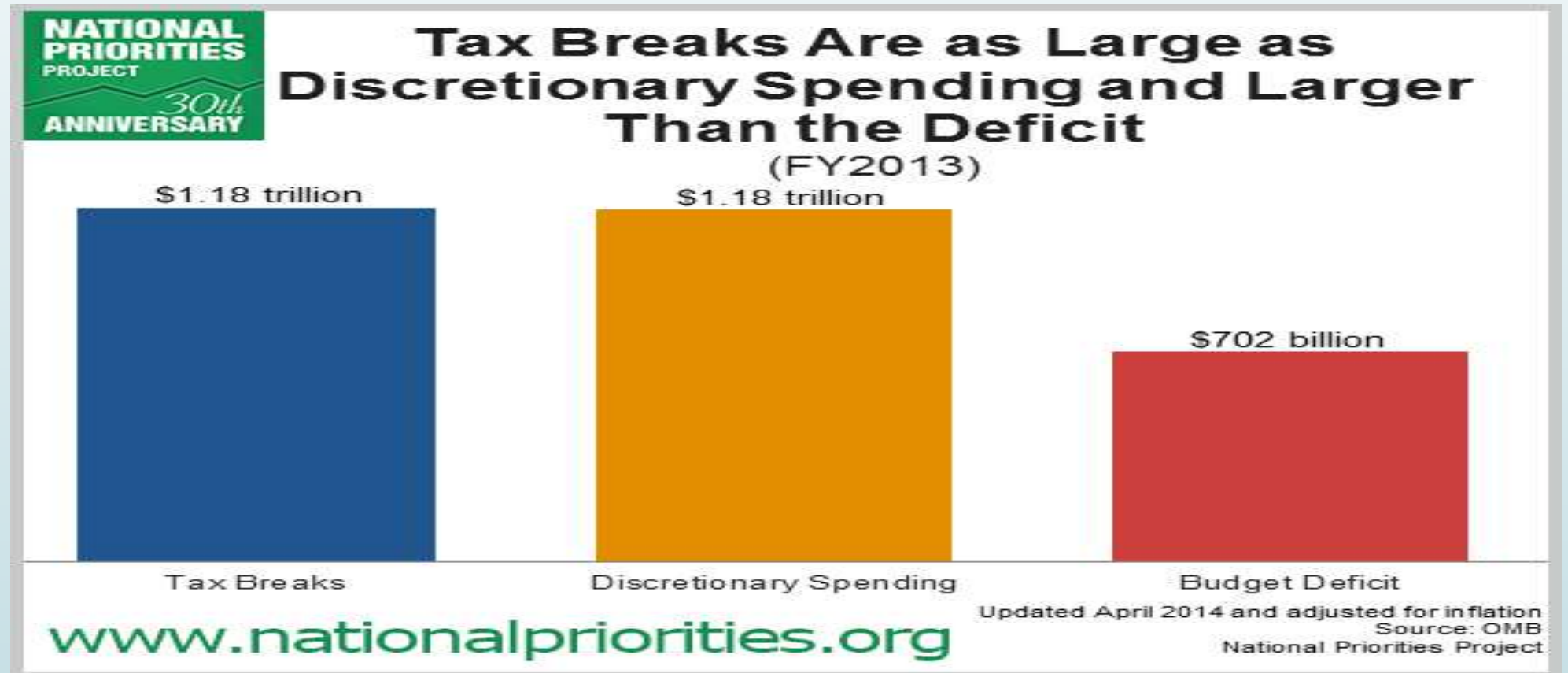
SSEMA3. C

Explain how government budget Deficits or surpluses impact national Debt



Budget

- Includes sources of income (Taxes & Fees) and List of Expenses





Expenses

- Include all the public goods and services provided by the government as well as the interest payments the government pay on its debt
- Total amount of Income – (Minus) the total number of expenses

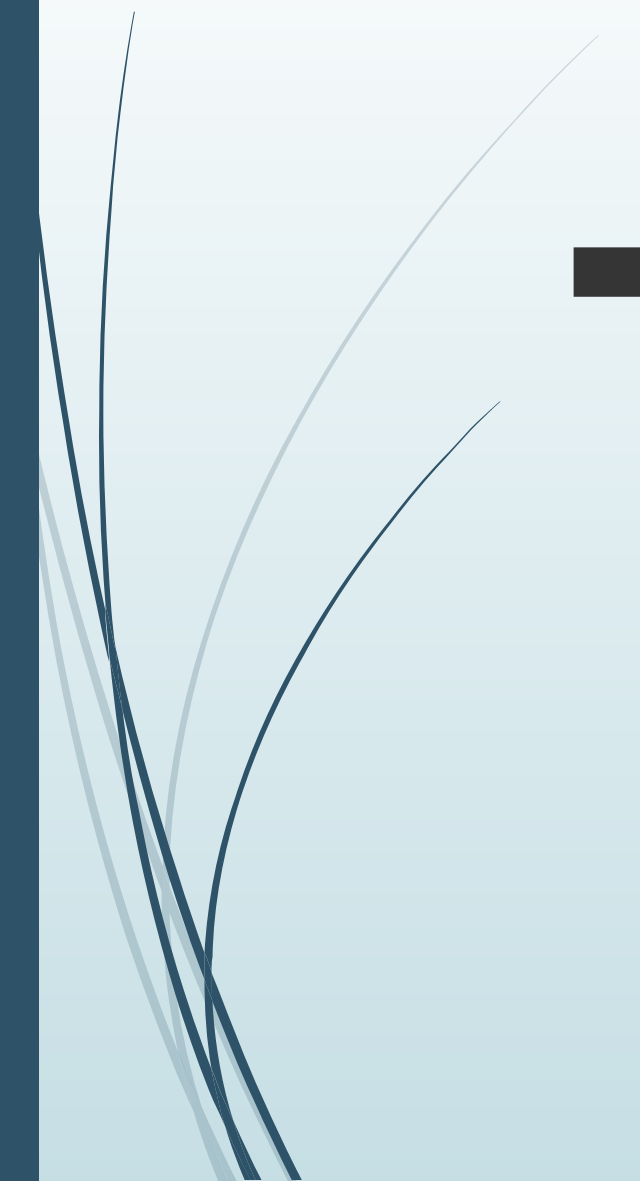


Government Surplus

- Exist when the amount of income (Taxes and Fees) received exceeds the amount of expenses paid.



Government Deficit

- Exist when the amount of income received falls short of the amount of expenses paid.
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National Debt

- Each time the government borrows money it adds to the national debt, the total amount of money owed by the federal government.
- Is the sum of all past deficits plus interest.



Deficit Spending


- ➡ Occurs when the government spends more money than it collects in revenue. To finance spending, governments often borrow money by selling bonds.



Debt Clock



➡ <http://www.usdebtclock.org/>

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- <https://www.econedlink.org/tool/199/Budget-Deficits-Public-Debt-Video-Quiz>
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How does Monetary and Fiscal policy work together to achieve a sound Economy?

FISCAL POLICY	MONETARY POLICY
Higher taxes	Selling Treasury securities
Lower taxes	Buying Treasury securities
Higher government spending	Increasing the reserve ratio
Lower government spending	Increasing the discount rate