Stabilization Policies
Fiscal Policy

Terms		
Fiscal Policy	Expansionary Fiscal Policy	automatic stabilizer
Contractionary Fiscal Policy	discretionary stabilizer	deficit
Surplus	Political Business Cycle	

Watch Fiscal Policy and Stimulus: Crash Course Economics #8
https://www.youtube.com/watch?v=otmgFQHbaDo&index=8&list=PL8dPuuaLjXtPNZwz5_o_5uirJ8gQXnhEO

Fiscal Policy – The way a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

- When the economy is going too _____, or too fast the government can step on the gas or the brake by changing government _____ or _____.

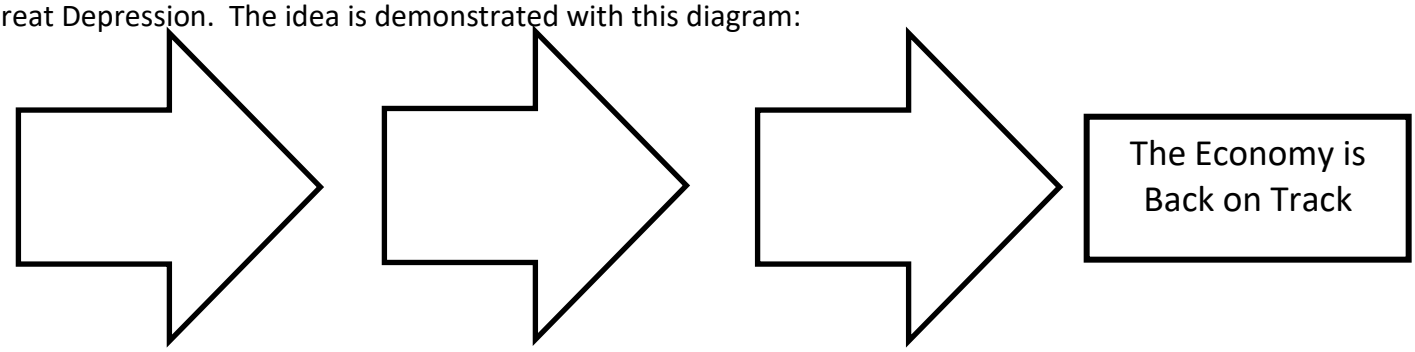
Expansionary Fiscal Policy - stimulate the economy during or in anticipation of a business cycle contraction

- When the economy falls into a deep recessionary gap the government can increase government _____, cut _____ or do some of both.
- The idea that government spending creates _____ and increases income for construction workers and teachers and other laborers. In turn, these workers spend more of their additional income, increasing _____ and boosting the entire economy.
- Cutting taxes follows a similar logic. A tax cut will increase _____. That will increase our consumer spending and boost the entire economy.

Contractionary Fiscal Policy - enacted by a government to reduce the money supply and ultimately the spending in a country.

- When the economy has an _____ gap the government can cut spending, or raise taxes or do some combination of the two.
- Higher taxes will leave consumers with _____ money to spend, and lower government spending will mean fewer public _____, all that should reduce consumer spending, cooling off the economy and reducing _____.

The theory that the economy will fix itself in the long run dominated policy decisions during the early years of the Great Depression. The idea is demonstrated with this diagram:



John Maynard Keynes – invented modern economics and developed theories and models about spending and production

- Keynes suggested using _____ fiscal policy to speed up the economy.
- Keynes argued that government spending can make-up for a decrease in _____ spending.
- According to Keynes theory if consumer spending falls, the _____ can spend instead.
- The flaw in this thinking is that the government needs to pay for all that spending. They can't just raise _____ to cover it because that would cause a _____ in consumer spending and defeat the purpose.
- To stimulate the economy, the government needs to _____ spend; they need to spend more money than they collect in tax revenue.

Crowding out – Where increased public sector spending replaces or drives down private sector spending.

- If the government borrows a lot of money, that increases _____ making it harder for business to borrow money and buy things like factories and tools. This weakens the economy while increasing government debt.
- Keynesian economists argue that crowding out does not occur if the economy is operating _____. In that case more government spending can raise overall output by putting idle resources back to work.
- Government stimulus when the economy is below capacity can actually raise private spending. All those newly hired workers will start _____.

The Multiplier - the multiplier effect complicates fiscal policy. Explain it here

- _____
_____
_____
_____
_____
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