


1  **Fiscal Policy**

1. Fiscal Basics (ch 15 Sect 1)
2. Taxes (ch 14)
3. Federal Budget & Debt (ch 15 sect 3)
4. Policy Debate: Keynes, Classical, Supply-Side (ch 15 sect 2)

2  **Remember??? Circular Flow Model**3  **Remember???**

- Income Approach???
- $Y = ???$
- Expenditure Approach???
- $C + ? + ? + ?$

$$Y = C + I + G + X_n$$

4  **Remember???**

- AS/AD Model???
- What causes the business cycle (recessions & Expansions)?
- Which 'Shock' is the most common?

$$AD = ??????????????????$$

$$AD = C + I + G + X_n$$

5  **Circular Flow Model**6  **What to do? What to do?**

- What to do when we are in a recession???
- What to do when inflation is rising too much???
- Possible answers:
 - Fiscal (government intervene)
 - Classical (do nothing)
 - Supply-Side (will discuss later)

7  **Fiscal Policy**

- "The use of government spending and revenue collection to influence the economy" (pg 392)
- Target the "G" part of GDP (expenditure approach) via direct

spending

- Target the "C" and/or "I" part of GDP (expenditure approach)
by adjusting the "Y" (income approach) through changing tax levels
- A little of both

8  **Fiscal Basic Intro**

9  **YOUR TURN!!!**

Open your books to page 391 (*Sullivan text*)

Read pages 391-394: answer the following questions on your own paper.

1. How much does the government spend on a daily basis?
2. What shapes the government's taxing and spending decisions?
3. What is fiscal policy used for?

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4. What is the federal budget?
5. What are the months in our fiscal year (from when to when)?
6. How long does it take to prepare the fiscal budget?
7. There are four basic steps in the federal budget process. Provide a thorough explanation of each step. Make sure to include key terms, date deadlines, and major points of interest.
 - a. Write Spending Proposal
 - b. Create the budget
 - c. Congressional debate
 - d. On to the White House

11  **Policy Basics: Expansion & Contraction**

- Expansionary Policy
 - Used when economy is slow (recession)
 - Goal: increase output: Grow AD
- Contractionary Policy
 - Used when economy is growing too fast (peak of cycle)
 - Goal: Decrease output: shrink AD

12  **Expansionary Policy**

Three methods:

1. Increase spending ($GDP = C + I + \underline{G} + X_n$)

2. Decrease taxes (GDP = Y: Tax decrease increases income, thus C & I spending goes up: $AD = \underline{C} + \underline{I} + G + X_n$)

3. Some combination of both

13  **Open your textbook...**

Look at page 395

• Copy into your notes the left side of figure 15.2

14  **Contractionary Policy**

Three methods:

1. Decrease spending (GDP = C + I + \underline{G} + X_n)

2. Increase taxes (GDP = Y: Tax increase decreases income, thus C & I spending goes down: $AD = \underline{C} + \underline{I} + G + X_n$)

3. Some combination of both

15  **Open your textbook...**

Refer to page 396

• Copy the left side of Figure 15.3 into your notes

16  **Your Turn (again)**

Open your books to page 396 (*Sullivan text*)

Read pages 396-398: answer the following question on your own paper.

8. There are five basic reasons why fiscal policy is often “clumsy and difficult to put into practice.” Provide a thorough explanation of each one. Make sure to include key terms, examples, and major points of interest.
- Difficulty of changing spending levels
 - Predicting the future
 - Delayed Results
 - Political Pressures
 - Coordinating Fiscal Policy

17  **Fiscal Policy Items to Consider**

- Multiplier Effect
- Automatic Stabilizers