Fiscal Policy — Worksheet

Part A — The budget, fiscal stance and evaluation

This worksheet develops the fiscal-policy skills the exam tests: identifying the budget balance, classifying a stance, showing it on the AD/AS model, and evaluating fiscal policy's strengths and weaknesses.

Worked example. Revenue $600b, spending $640b → a **deficit** of $40b. To deliver this in a downturn the government is running an **expansionary** stance: AD shifts right, and the multiplier amplifies the rise in output.

"Expansionary/contractionary" describes the *stance*; "surplus/deficit" describes the *balance*. They usually go together (expansionary → toward deficit) but keep the two ideas distinct in your answer.

The budget

1. Define fiscal policy and name the two main instruments the government uses. ______________

2. For each, state whether the budget is in surplus, deficit or balance: (a) revenue $620b, spending $590b; (b) revenue $560b, spending $600b; (c) revenue $580b, spending $580b. ______________

3. Explain the difference between the *planned* and the *actual* budget outcome, and give one reason they may differ.

Stance and the model

4. On a fully labelled AD/AS diagram, show an expansionary fiscal stance closing a recessionary gap. Label the AD shift, the new equilibrium, and the change in output.

5. Complete the table.

Stance	Change in G and/or T	Direction AD shifts	When used
Expansionary			
Contractionary			

6. Explain how automatic stabilisers cushion the business cycle in (a) a downturn and (b) a boom, without any new government decision.

Evaluation

7. Evaluate the use of fiscal policy to stimulate a weak economy. In your answer, refer to the multiplier, implementation lags, government debt and the possibility of crowding out.