E101 - 4.1 - Fiscal Policy

Fiscal Policy - The governments approach towards its own spending & taxation.

$$Net\ Tax\ Revenue\ (NTR) = Tax\ Revenue - Transfer\ Payments \qquad Budget\ Balance = NTR - G$$

Budget Surplus - Net tax revenue is in excess of government spending on goods and services.

Budget Deficit - Government spending on goods and services is in excess of net tax revenues.

National Debt - The sum of the federal governments budget deficits less its surpluses.

Balanced Budget - Net tax revenues equals government spending on goods and services.

The state of government's budget depends on the level of GDP in the economy as well as on tax rates and it's own spending.

Countercyclical Fiscal Policy - Deliberate adjustments in the level of government spending and taxation in order to close recessionary or inflationary gaps.

Crowding out effect - The idea that when governments borrow to finance a budget deficit, it tends to crowd out private investment because it causes interest rates to rise.

Balanced-Budget Fiscal Policy - The belief that a governments budget should be balanced each budget period.

Automatic Stabilizers - Provisions of tax laws and government spending programs that automatically take spending out of the economy when it is booming and put spending in when it is slowing down.

Procyclical - Action by government that tends to push the economy in the same direction it is leaning in.

A policy that both decreases government spending and taxes by the same amount results in a lower real GDP and higher unemployment.

E101 - 4.2 - Fiscal Policy

Cyclical Deficit - The burger deficit (surplus) that results from a recession; it is the difference between the actual deficit (surplus) and the structural deficit (surplus).

Structural Deficit - The budget deficit (surplus) that would exist at full employment (potential) GDP.

$$Balance\ Budget = NTR - G = 0$$

Cyclically Balanced Budget Fiscal Policy - The use of countercyclical fiscal policy to balance the budget over the life of the business cycle

$$NTR = Tax\ Revenue - Transfer\ Payments$$