

WE GOT ONE & A HALF STARS FROM JOBSEEKERS
UNDER 55, A BIG THUMBS UP FROM BULK-BILLED
PATIENTS & A "LOVE YOUR WORK" FROM THE PETROLEUM
& GAS INDUSTRY..



FISCAL POLICY STANCES

What does the syllabus say?

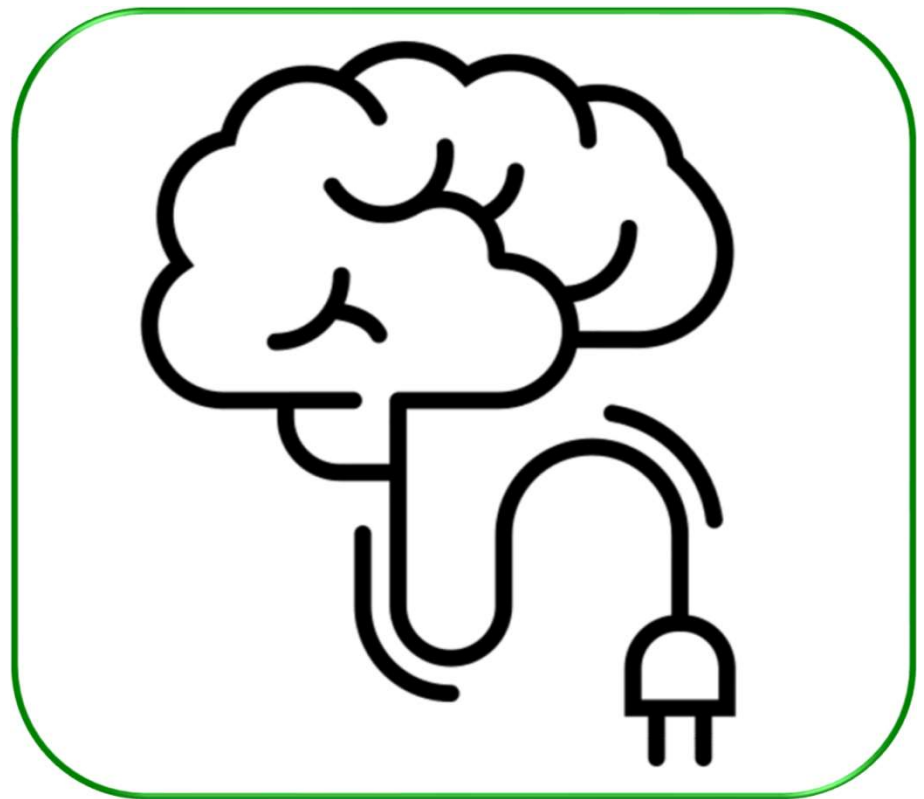
FISCAL POLICY

- the concept of fiscal policy
- the components of government revenue and expenditure in the budget
- the different budget outcomes i.e. balanced, surplus and deficit budgets
- reasons that account for differences between planned and actual budget outcomes
- methods of financing a budget deficit and the uses of a budget surplus
- the distinction between automatic fiscal stabilisers and discretionary fiscal policy
- the distinction between budget outcomes associated with automatic fiscal stabilisers and budget outcomes associated with discretionary fiscal policy
- the concepts of expansionary, contractionary and neutral fiscal policy stances
- the impact of different fiscal policy stances on the level of economic activity
- strengths and weaknesses of fiscal policy
- contemporary (the last three years) fiscal policy stances in Australia



Learning intention

We are learning about the government's use of fiscal policy in Australia.



Success criteria

- i. Briefly, EXPLAIN what is meant by a fiscal policy stance.
- ii. EXPLAIN the concepts of expansionary, contractionary and neutral fiscal policy stances.
- iii. DISCUSS the impact of different fiscal policy stances on the level of economic activity.



Let's get started...

Complete the cloze exercise on fiscal policy pictured to the right.

Review - Introduction to fiscal policy



WORD BANK

assets	functions	retire	PAYG	stabilisation	central
May	balance	corona	bonds	crowding	outcome
welfare	redistributes	automatic	allocative	stabilise	tax
greater	deliberate	exceeds	future	overseas	stimulus

The Federal Budget, delivered in Parliament in _____ of each year, estimates government revenue and the cost of expenditure plans for the coming year. A budget serves a number of _____, including the _____ function which outlines how funds are to be raised and allocated to different purposes. Secondly, the Budget _____ income from the wealthy to the less wealthy. Finally, the _____ function enables the government to influence the level of macroeconomic activity. The _____ of the budget refers to the relationship between government revenue and government spending. The budget is in _____ when the amount of revenue and expenditure are equal. The budget is in surplus when total revenue is _____ than outlays. Thirdly, the budget is in deficit when spending _____ revenue. There are a number of different ways to finance a budget deficit i.e. by selling government _____, borrowing from the _____ bank, borrowing from _____ or selling government _____. The selling of government bonds within the domestic economy might result in 'out'. A surplus budget can be used to _____ (pay off) government debt built up by past deficits, to help fund _____ expenditure or may be returned to taxpayers as _____ cuts. _____ stabilisers refer to changes in government revenue and expenditure that come about due to changes in the business cycle. Key automatic stabilisers include _____ payments and _____ taxation. Discretionary fiscal policy refers to _____ changes made to government revenue and expenditure in order to _____ the economy. An example would be the large increase in _____ spending on the part of the Coalition in response to the economic downturn caused by the onset of _____ virus.

Review - Introduction to fiscal policy



WORD BANK

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Fiscal policy stances

Expansionary

An expansionary budget is one that is designed to increase overall levels of spending, output and income in the economy.

Neutral

A neutral budget is designed to maintain the current levels of spending, output and income in the economy.

Contractionary

A contractionary budget is one that is designed to decrease overall levels of spending, output and income in the economy.

What is a neutral fiscal policy stance?

- Prior to the 1930s it was considered the role of government to ensure that the budget balanced.
- Since the Great Depression it has been much more common for governments around the world to run either a budget surplus or deficit.



What is a contractionary fiscal policy stance?

- Governments are most likely to run a contractionary budget during a boom in order to reduce levels of spending in the economy.
- In order to do this the government can either reduce levels of government spending or increase levels of taxation.
- A reduction in a deficit or an increase of a surplus are the budgetary outcomes associated with a contractionary stance
- The last time the Commonwealth Budget was in surplus in 2006/07 although the actual budget outcome for 2022/23 is expected to be around \$4b.



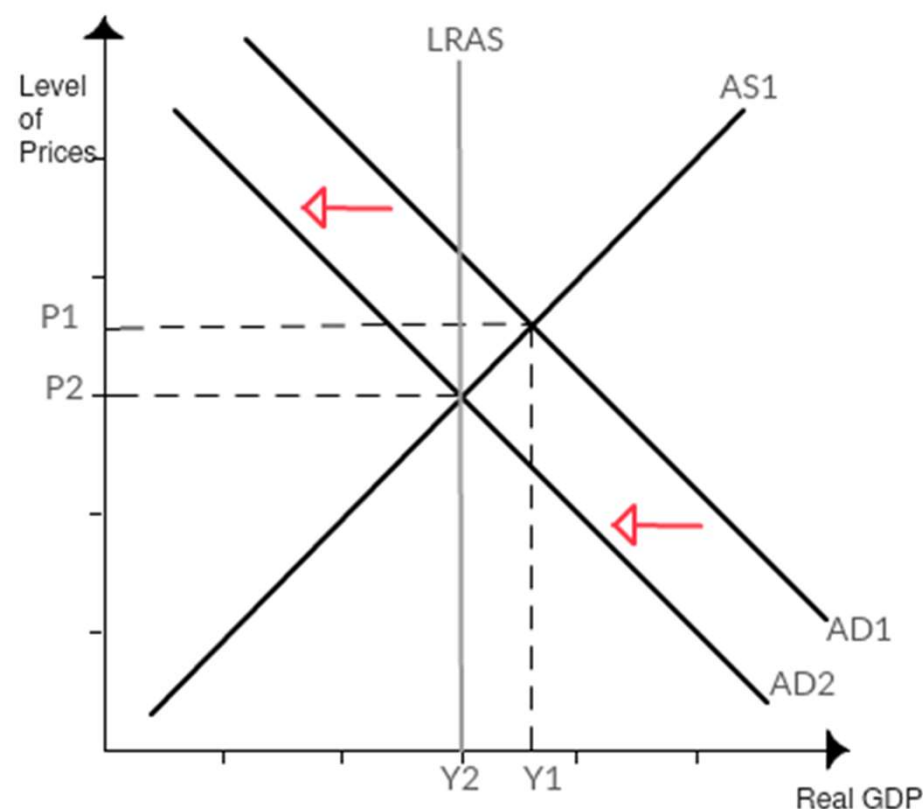
Time to think...

Use an appropriate model in order to demonstrate the effects of a contractionary policy stance on the economy?



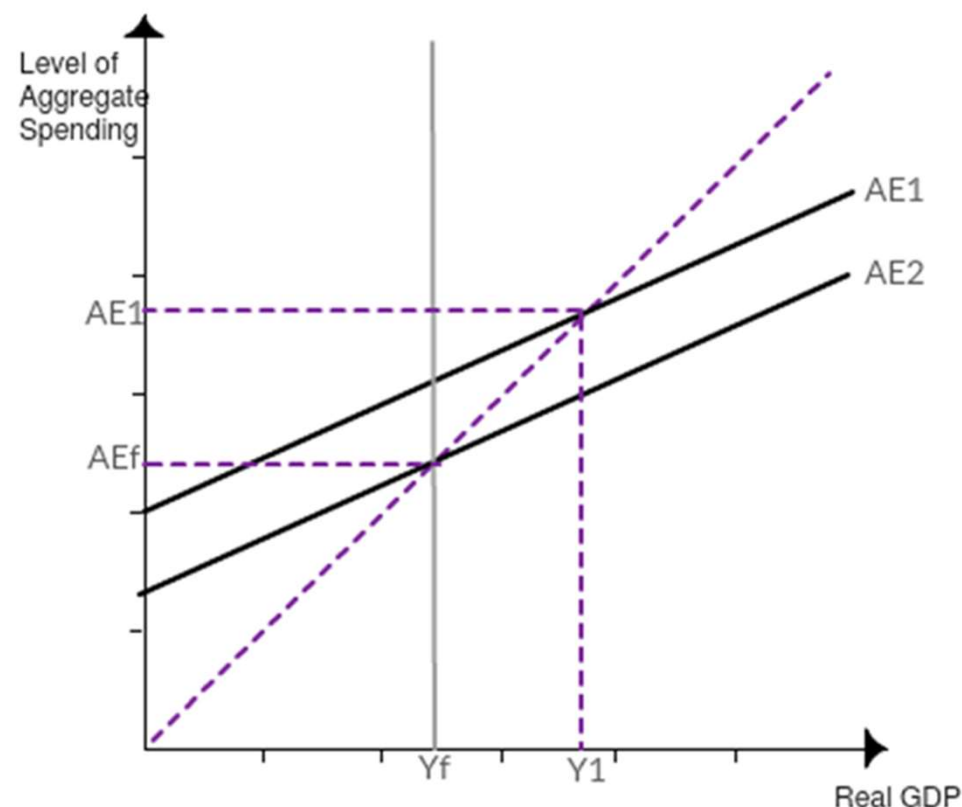
Modelling a contractionary stance using the AD/AS model

- A surplus budget will see government spending reduce resulting in a shift in aggregate demand from AD1 to AD2.
- The reduction in discretionary government expenditure should reduce the expansionary gap in the economy reducing prices from P_1 to P_2 .
- Output and income in the economy will fall from Y_1 to Y_2 .



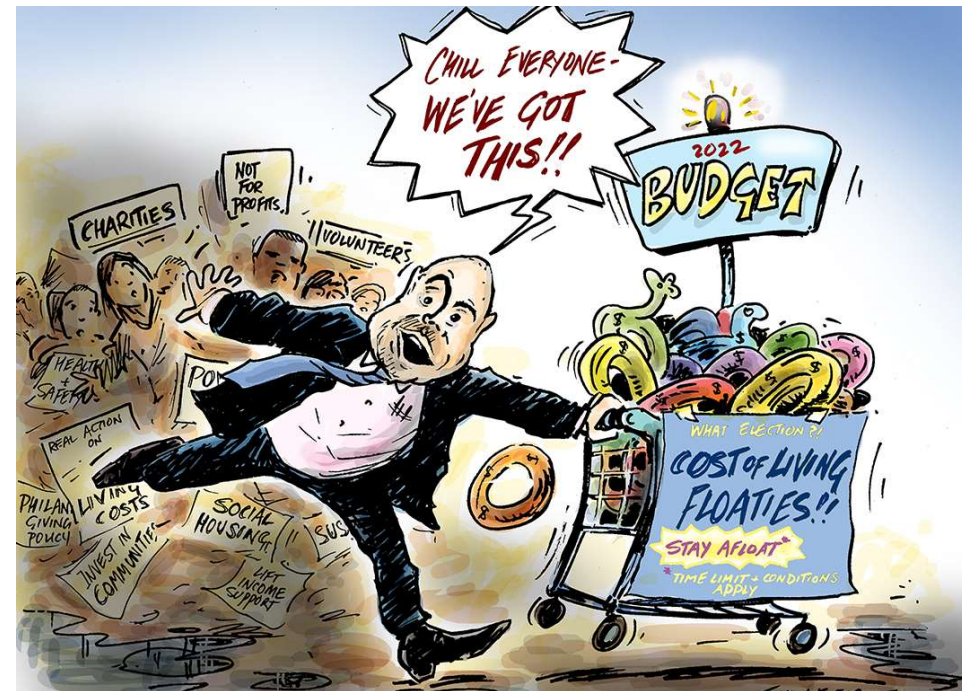
Modelling a contractionary stance using the AE model

- A surplus budget will see government spending reduce resulting in a shift in aggregate demand from AD1 to AD2.
- The reduction in discretionary government expenditure should reduce the expansionary gap in the economy reducing prices from P1 to P2.
- Output and income in the economy will fall from Y1 to Y2.



What is an expansionary fiscal policy stance?

- Governments are most likely to run an expansionary budget during a trough in order to stimulate aggregate expenditure.
- Expansionary fiscal policy is unlikely to have result in much inflationary pressure during a trough due to excess capacity within the economy.
- An increase in the deficit or a decrease of a surplus are the budgetary outcomes associated with an expansionary stance.
- The Commonwealth Budget has been in deficit since 2008. These deficits grew significantly larger as a result of increased Government expenditure due to the advent of COVID-19.



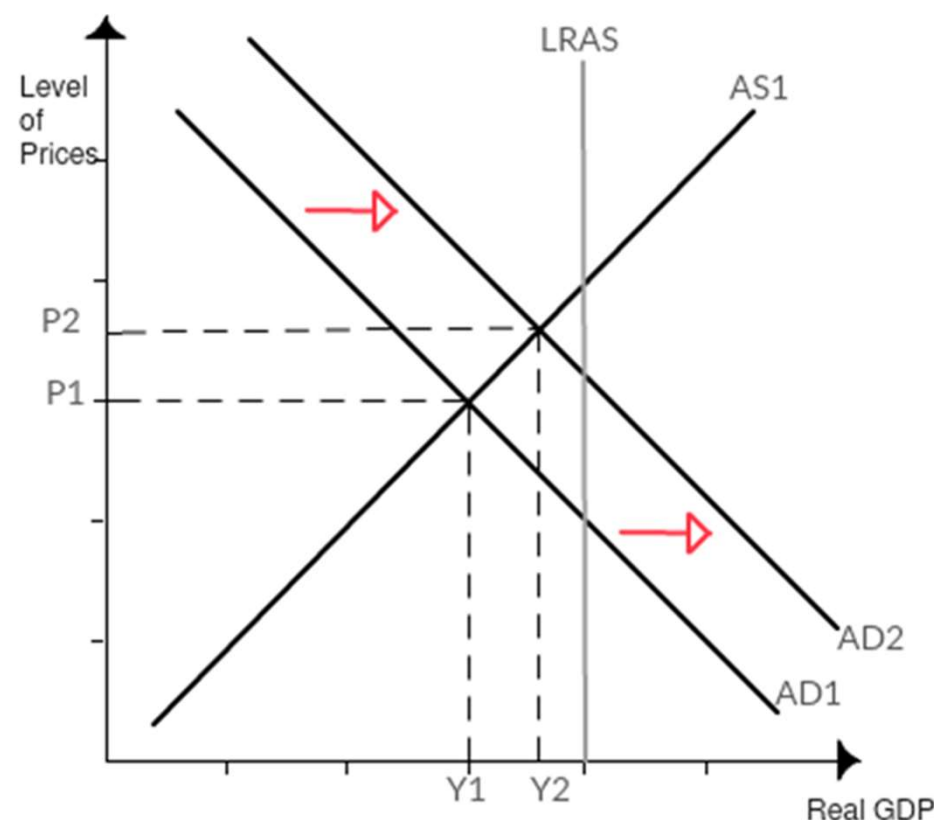
Time to think...

Use an appropriate model in order to demonstrate the effects of an expansionary policy stance on the economy?



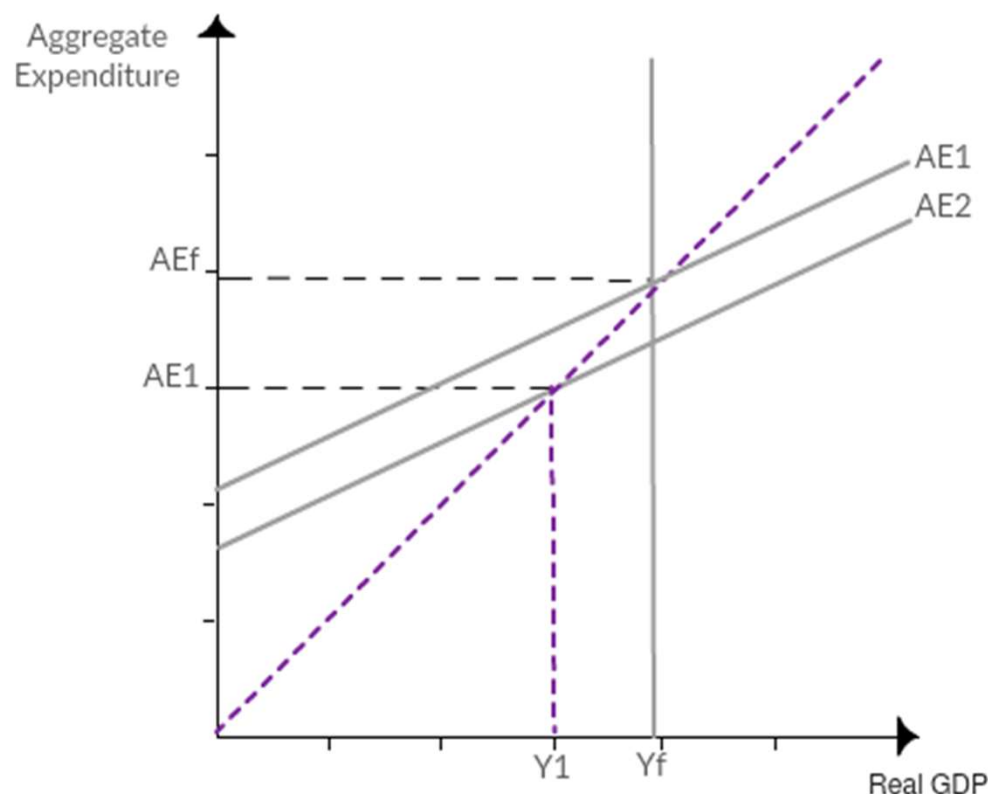
Modelling a contractionary stance using the AD/AS model

- A deficit budget will see government spending increase resulting in a shift in aggregate demand from AD1 to AD2.
- The increase in discretionary government expenditure should close the contractionary gap in the economy increasing prices from P1 to P2.
- Output and income in the economy will rise from Y1 to Y2.



Modelling an expansionary stance using the AE model

- A surplus budget will see government spending reduce resulting in a shift in aggregate demand from AD1 to AD2.
- The reduction in discretionary government expenditure should reduce the expansionary gap in the economy reducing prices from P1 to P2.
- Output and income in the economy will fall from Y1 to Y2.



Before you go...

Write a response to the following question:

- Using an appropriate model, discuss the intended impact of an expansionary policy stance on the macroeconomy.

[5 marks]



How can I support my learning from today?

- ☐ Test your understanding on the success criteria each day. Address any gaps in your learning.
- ☐ Pre-read Chapter Eight of the text.
- ☐ Take Cornell notes on the relevant chapter of the text organised under the syllabus dot-points.
- ☐ Create a glossary of key economic terminology.

Success criteria checklist

I CAN...

- ☐ EXPLAIN what is meant by automatic fiscal stabilisers and discretionary fiscal policy?
- ☐ DISTINGUISH between budget outcomes associated with automatic fiscal stabilisers and discretionary fiscal policy?
- ☐ EXAMINE the 2023-24 Budget and discuss the likely impact of the two different types of stabilisers on economic activity?