Question 27 **(12 marks)**

This question refers to the edited extracts below from two separate articles by the Macquarie Group and the Commonwealth Bank respectively, published on 26 October 2022.

Extract 1: A budget that reflects the times

The Albanese Government has delivered a cautious budget, consistent with the need to keep fiscal expenditure expansionary but with the intention of limiting any additional inflationary pressures.

Treasury is now forecasting a more difficult outlook for the Australian economy. It expects GDP growth to decline to only 1.5% in 2023/24, unemployment to rise by 0.75% and for inflation to remain at higher levels throughout the next three years.

The primary focus of the budget is to address cost of living pressures. Despite higher tax revenues (which total $A144.6 bn over the four years to 2025/26), the government has opted to hold on to some of the savings and pursue family-oriented policies that align with the RBA's goal of bringing inflation back down to its target 2–3% range.

Against a backdrop where economic growth is slowing, but where the fiscal position remains strong, the budget prioritises four key areas with targeted spending addressing: 1) the cost of living (tax cuts and social security); 2) parental and childcare support; 3) infrastructure; and 4) health, education, and community services. Companies that are exposed to the housing sector also stand to gain due to the government's ambitious goal of building around 200,000 affordable homes per year for the next 5 years starting in mid-2024.

Extract 2: Federal Budget 'resetting for an uncertain future': CBA economists

The federal government's 2022/23 Budget — the first handed down by Treasurer Jim Chalmers — includes measures to address childcare and parental leave, housing and sustainability.

'For 2022/23 the Budget deficit is now forecast at $A36.9 bn, 1.5 per cent of GDP, but little has changed from the 2021/22 budget deficit of $A32 bn, 1.4 per cent of GDP. As such, this represents little change in the overall fiscal position from 2021/22 to 2022/23'.

The report's authors also write: 'The Government has downgraded the outlook for global [economic] growth (from 3.2 per cent in 2022 to 2.1 per cent in 2023*). The Budget notes that, "high inflation is sapping momentum and global growth is slowing by more than expected, with some major economies stalling or contracting. Higher global interest rates have increased the risk of recession across all major advanced economies, and the outlook for China has weakened." We very much agree.'

(a) (i) State the forecast growth rate for the Australian economy for 2023/2024. (1 mark)

(ii) State the value of the Australian Government's expected budget deficit for 2022/2023. (1 mark)

(b) With reference to **three** pieces of evidence from the extracts, identify and account for the fiscal stance of the 2022/2023 Federal Budget. (4 marks)

(c) Using an aggregate demand/aggregate supply (AD/AS) model, describe how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability and economic growth in the Australian economy.

(6 marks)

Model