# Chapter 29 – Fiscal Policy

**The Federal Budget**

The Federal Budget is the annual statement of the federal governments’ outlays and revenues.

It has two purposes:

1. To finance the activities of federal government
2. To achieve macroeconomic objectives

Fiscal Policy is the use of federal budget to achieve macro-economic objectives, such as full employment, sustained economic growth, and price level stability.

*Budget Making*

The federal government and parliament make fiscal policy. After a long, draw-out process of consultations, the Minister of Finance presents a budget to the parliament.

*Budget Balance*

The federal government’s budget balance equals revenues minus outlays.

If revenues exceed outlays, the government has a budget surplus

If outlays exceed revenues, the government has a budget deficit

If revenues equal outlays, the government has a balanced budget

*Deficit and Debt*

Government Debt is the total amount that the government borrowing.

It is the sum of past deficits minus the past surpluses.

**Supply-Side Effects of Fiscal Policy**

Fiscal policy has important effects employment, potential GDP, and aggregate supply – called *supply-side effects*

A *tax wedge* is the gap created between the before-tax and after-tax wage rates as they rise and fall respectively.

When the quantity of labour employed decreases, the potential GDP decreases.

*Tax Revenues and the Laffer Curve*

The relationship between the tax rate and the amount of tax revenue collected I called Laffer Curve

**Fiscal Stimulus**

It is the use of fiscal policy increase and employment.

Fiscal Stimulus can be either

1. Automatic: It is a fiscal policy action triggered by the state of the economy by the government action
2. Discretionary: It is a policy action that is initiated by an act of Parliament