FISCAL POLICY

Introduction

- Fiscal Policy is a part of macro economics.
- This policy is also known as budgetary policy.
- One major function of the government is to stabilize the economy.

Meaning

- The word fisc means ‘state treasury’ and fiscal policy refers to policy concerning the use of ‘state treasury’ or the government finances to achieve the macroeconomic goals.

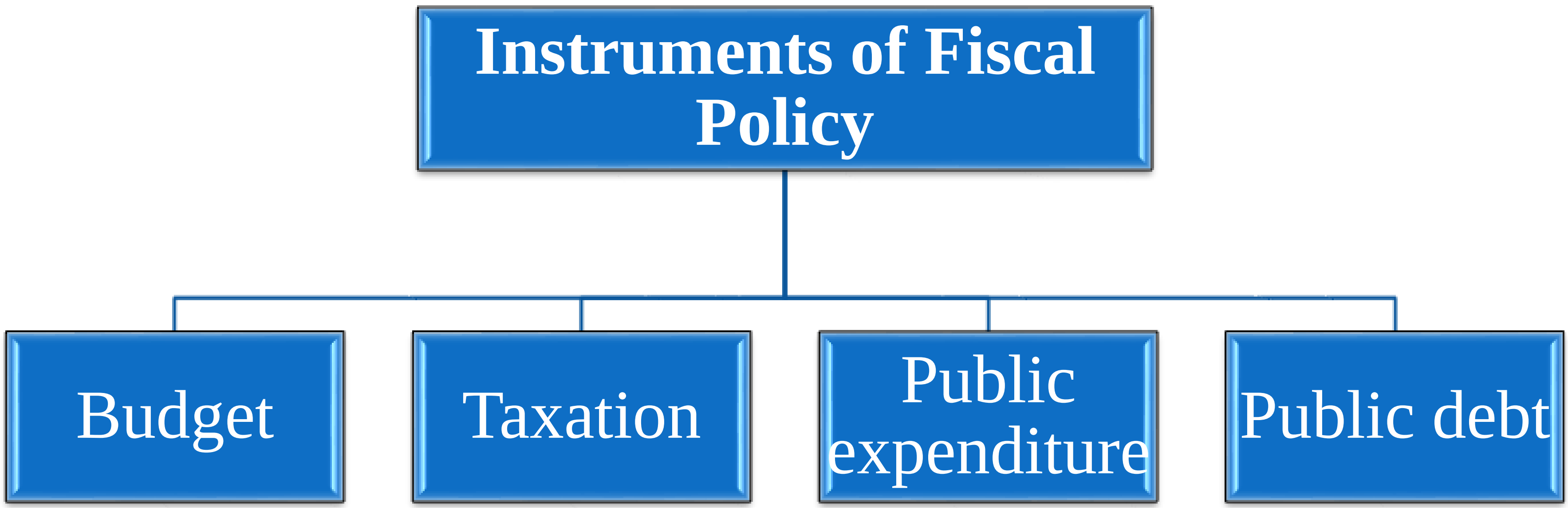
- Fiscal policy involves the decisions that a government makes regarding collection of revenue, through taxation and about spending that revenue.

- It is sister strategy to monetary policy through which a central bank influences a nation’s money supply.

Objectives of Fiscal Policy

1. Development by effective mobilisation of resources
2. Reduction in inequalities of income and wealth
3. Price stability and control of inflation
4. Employment generation
5. Reducing the deficit in the balance of payment
6. Increasing national income
7. Development of infrastructure

Instruments of Fiscal policy



Budget

- "A Budget is a detailed plan of operations for some specific future period"
- Budget is presented by the finance minister
- Budget is also known as Annual Financial Statement of the year.

Taxation

Direct Tax

- Individual Income Tax & Corporate Tax.
- Wealth tax

Indirect Tax

- Central excise (a tax on manufacture goods)
- VAT
- Service Tax
- Custom Duty

Public Expenditure

- Public expenditure is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, etc.
- Public expenditure is an important component of aggregate demand.
- Public expenditure include Revenue expenditure and capital expenditure.

Public Debts

“ public debt is defined as any money owned by a government agency”

- Internal borrowings

✓Borrowings from the public means of treasury bills and govt. bonds.

✓Borrowings from the central bank

- External borrowings

✓Foreign investment

✓International organizations like World Bank &IMF

✓Market borrowings

Types of Fiscal Policy

- **Fiscal policy**
  - Discretionary policy
    - To cure recession
      - Increase in Govt. expenditure
      - Reduction of taxes
    - To control inflation
      - Raising taxes to control inflation
      - Disposing of budget surplus
  - Non-discretionary fiscal policy
    - Transfer payment
    - Personal income taxes
    - Corporate Income taxes
    - Corporate dividend policy

Concept of Deficit

- Revenue Deficit = Revenue Expenditure – Revenue Receipts

- Fiscal Deficit = Total Expenditure *(that is Revenue Expenditure + Capital Expenditure) – Total Receipts (that is all Revenue and Capital Receipts other than loans taken)*