Fiscal Policies

Fiscal Policy: The basics

The government budget and total spending

* GDP 🡪government directly controls G, and indirectly C and I

Disposable income = Income – Taxes

Expansionary and Contractionary Fiscal Policy

1. Expansionary   
   2 and 3 🡪 directly affects consumptions  
   1 🡪 affects investments
2. Contractionary

Expansionary Fiscal Policy can close a recessionary gap

Recessionary gap (high level of unemployment) 🡪 instead of waiting the government can

implement 🡪

Contractionary Fiscal Policy can close a inflationary gap

Types of fiscal policy

The budget balance