Fiscal Policy

* changes in the expenditures or tax revenues if the federal government
- 2 tools of fiscal policy
* taxes - government can increase or decrease taxes
* Spending- government can increase or decrease spending

* fiscal policy is enacted to promote our nation’s economic goals: full employment, price stability, economic growth.

Deficits, Surpluses and debt

* balanced budget
- revenues = expenditures
* budget deficit
- revenues < expenditures
* budget surplus
- revenues > expenditures
* government debt
- sum of all deficit - sum of all surpluses

* government must borrow money when it runs a budget deficits
* government borrows from
- individuals
- Corporations
- Financial institutions
- Foreign entities or foreign government

Fiscal Policy Two options

* Discretionary fiscal policy (action)
- expansionary fiscal policy - think deficits
- Contractionary fiscal policy - think surplus
* no - discretionary fiscal policy (no action)