Section 1: Fiscal Policy

Slide 1:
- **Fiscal Policy**: Government spending and taxes
- Two types of Fiscal Policy

1. Expansionary Fiscal Policy
2. Contractionary Fiscal Policy

Slide 2:
1. **Expansionary fiscal policy**: Government increases spending, reduces taxes or both
2. Goal is to increase total spending in the economy to reduce unemployment
3. Example: Government is spending 800 billion a year and want to increase it to a trillion

Slide 3:
1. **Contractionary Fiscal Policy:** Government decreases spending, raises taxes or both
2. Goal is to reduce total spending in the economy to reduce inflation
3. Example: Government is spending two trillion a year and they reduce it to 1 trillion

Slide 4:
1. High unemployment usually results in people not spending
2. People spend more, firms make more money, produce more goods, hire people to make goods
3. To reduce unemployment government can spend more, which puts more money into the economy
4. When firms sell more goods they can hire additional workers

Slide 5:
1. Some economists don't believe this
2. Just because government spends more total spending in the economy doesn't increase
3. **Crowding out**: Occurs when increases in government spending lead to reductions in private spending
4. If government spends more on education then people may decide to spend less on education

Slide 6:
- Let's pretend we can get vitamins two ways

1. Body produces vitamins itself using food
2. Through a vitamin pill

- Patient is sluggish because he lacks vitamins
- So doctor gives him some

Slide 7:
1. Because of the pills the body decides it will produce fewer vitamins itself

2. Crowding out happens the same way.
3. Government does X, but because they are doing X now
4. The private sector no longer does X or it doesn't do much of X that it used to.

Slide 8:
1. Inflation is the result of too much spending in the economy compared to the quantity of goods and services available for purchase
2. Economists call this "Too much money chasing too few goods"
3. Leads to contractionary fiscal policies
4. If people spent less money, firms would sell fewer goods and end up with a surplus
5. They would have to lower prices

Slide 9:
1. Congress decides that it will cut spending
2. Decrease in government spending means less money in the economy
3. Firms sell fewer goods and end up with a surplus
4. Firms lower prices to get rid of unwanted inventory.

Slide 10:
- Just because government spends less money, doesn't mean total spending will fall.
- **Crowding in**: Occurs when decreases in government spending led to increases in private spending
- Government decides its going to spend two million less on public education
- People turn to private education and spend two million

Slide 11:
1. **After-tax income**: Money left over after you paid your taxes
2. Government can cut taxes to give people more after-tax income
3. Individuals have more money to spend
4. Businesses sell extra goods and use the money to hire more workers
5. Leading to a drop in unemployment

Slide 12:
1. Taxes can also affect the supply side of economy too.
2. If you were taxed at 100% (dollar for dollar) how much would you work?
3. The higher your after-tax income, the more you're willing to work.
   People working more hours leads to the production of more goods and services

Slide 13:
1. Tax cuts can lead to higher or lower government revenue
2. Tax revenue = Average tax rate X income
3. Tax cuts often stimulate more work
4. More work leads to more income

5. Which leads to more revenue for government.
6. As long as income rises by more than the taxes are cut, tax revenues will rise

Slide 14:

- Supply-side economics believe that cuts in high tax rates generate higher tax revenues
- Cuts in low tax rates generate lower tax revenues.