Lesson Review

Question 1: What is fiscal policy?

Answer:
Fiscal policy refers to the government's use of taxation and spending to influence the economy. It is one of the primary tools policymakers use to stabilize economic fluctuations and achieve macroeconomic objectives such as full employment, price stability, and economic growth.

Question 2: What are the two main components of fiscal policy?

Answer:
The two main components of fiscal policy are:

- Government Spending: The amount of money the government spends on goods and services.
- Taxation: The amount of money the government collects from individuals and businesses.

Question 3: How does expansionary fiscal policy aim to stimulate economic growth?

Answer:
Expansionary fiscal policy aims to stimulate economic growth by increasing government spending and/or reducing taxes. By doing so, it increases aggregate demand, leading to higher levels of output, employment, and economic growth.

Question 4: What is the objective of contractionary fiscal policy?

Answer:
The objective of contractionary fiscal policy is to reduce aggregate demand and control inflation. This is achieved by decreasing government spending and/or increasing taxes, which reduces disposable income and consumption, leading to lower levels of output and economic growth.

Question 5: How can fiscal policy be used to address a recession?

Answer:
To address a recession, fiscal policy can be used in an expansionary manner. The government can increase its spending on public projects or reduce taxes to boost aggregate demand and stimulate economic activity. This can help to increase output,

employment, and consumer spending, thereby helping the economy recover from a recession.

Question 6: What is the difference between discretionary fiscal policy and automatic stabilizers?

Answer:

- Discretionary Fiscal Policy: Refers to deliberate changes in government spending and taxation to stabilize the economy. It requires legislative action and is implemented in response to economic conditions.
- Automatic Stabilizers: Are automatic changes in government spending and taxation that occur in response to economic fluctuations, without the need for legislative action. Examples include unemployment benefits and progressive income taxes.