

Fiscal Policy

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Deficit and Debts

- The government budget can be in three possible states
- Deficit - When government outlays exceed revenue
- Surplus - When government revenue exceed outlays
- Balanced Budget - government outlays and revenue are equal
- The National debt is the accumulation of budget deficits
- Debt is a stock, and deficit is a flow

Keynesian Fiscal Policy

- Focus on AD
- Think about AS/AD economy in a recession
- What happens if the government does nothing?
- SRAS will slowly adjust as input prices fall
- If the government can increase aggregate demand then that removes the need for SRAS and input prices to fall
- How does the government go about doing this?
- Remember the parts of GDP/AD, consumption, investment, government, and net exports