Fiscal Policy

Fiscal policy aims to alter levels of the total demand in the economy by using changes in: I) Taxation II) Government Spending. To stimulate the economy the government spending they can either reduce taxes or increase government spending. For example a reduction in taxes will mean people might have higher disposable incomes. This means they can spend more money in the shops online, going out etc. So businesses can benefit from rising sales. Businesses may respond to these rising sales by: I) Employing more people II) Producing more III) It is also likely that their profits will increase. To conclude so far, an expansionary fiscal policy can be used to I) Increase GDP Growth II) Reduce Unemployment III) help business.

On the other hand the government can "cool" the economy by either increasing taxes or reduce government spending. So businesses suffer from falling sales. They are likely to respond by postponing price rises, or even by reducing prices to maintain customers. For Example a rise in taxes will mean people have to lower disposable incomes. So they have to cut back on their spending. In this way a contra dictionary fiscal policy can be used to prevent or bring down the rate of inflation.

Fiscal policy – using changes in government spending

The government can also change government spending to regulate the economy. For example, the government could increase spending on schools by £2 billion. This will lead to many employment of teachers etc. II) When these workers spend their wages in the charge by transses will benefit from increasing sales and increasing profits. They will also employ core people.

Expansionary fiscal policy can be tracedular because if the government try to reduce inflation, then taxes will increase for evolving.

Contractionary fiscal policy can be upopular because if the government attempt to reduce taxes, money will become more popular, leaving businesses to raise their sales and reduce their staff, resulting in unemployment.