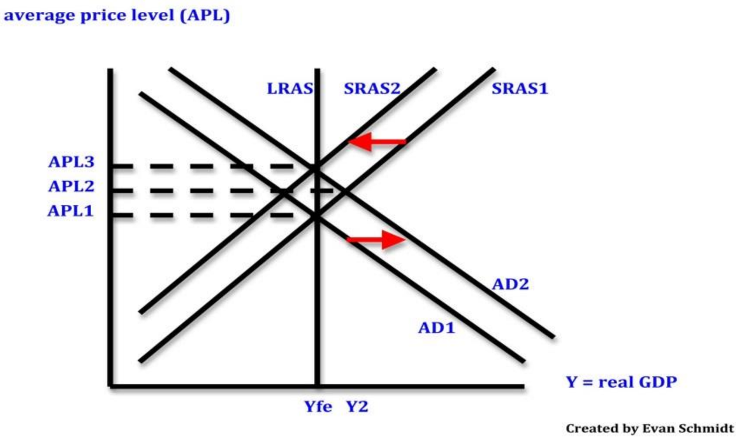

WHY EXPANSIONARY FISCAL POLICY ISN'T NEEDED IN ORDER TO CLOSE A DEFLATIONARY GAP IN THE NEO-CLASSICAL MODEL	• In a recession, demand for FOPs decreases in the long run as firms demand less as they have reduced production as consumption has decreased • Less demand means factor prices decrease, so the SRAS shifts right • Neoclassical economists say expansionary fiscal policy will lad to an inflationary gap
WHY EXPANSIONARY FISCAL POLICY IS NECESSARY TO CLOSE A DEFLATIONARY GAP IN THE KEYNESIAN MODEL	• The aim of fiscal policy is to increase output and bring the economy to full employment • The market will not solve the deflationary gap as factor prices are stuck • APL is low, but factor prices – WAGE RATE remains high, therefore firms have no incentive to produce, so production remains low • Therefore the government have to intervene and increase government spending to shift aggregate demand right
DEMAND SIDE POLICIES DEMAND SIDE POLICIES	Policies used to manipulate the level of aggregate demand, generally in the short term. Includes fiscal and monetary policy.
FISCAL POLICY FISCAL POLICY	Government economic decisions relating to taxation, spending and borrowing to achieve economic objectives relating to inflation and unemployment
EXPANSIONARY FISCAL POLICY	Decisions relating to government spending, borrowing and taxation which aim to increase economic activity
CONTRACTIONARY FISCAL POLICY	Decisions relating to government spending, borrowing and taxation which aim to target inflation

EVALUATION	• TIME LAG – takes a long time, especially education and training • CAN TARGET • Industrially and geographically • EDUCATION AND TRAINING: • Increasing quality of labour increases transferrable skills • Training gives people specific skills to increase efficiency in a particular industry, solves the time lag problem of education • IMPACT ON ECONOMIC GROWTH – shifts LRAS and AD • ABILITY TO CREATE EMPLOYMENT • – employment created in the short run with building of bridges, buildings etc • - increase confidence – more likely to create long term employment • - training and education increases skills, increases flexibility so less people are unemployed • - creating globally competitive firms will increase employment • ABILITY TO REDUCE INFLATIONARY PRESSURE in full employment not Keynesian deflationary gap • IMPACT ON GOVERNMENT BUDGET – huge amounts of government spending • Increase in spending can lead to crowding out • EFFECTS ON EQUITY – encourage education and training, fair, improves everybody's chances • EFFECTS ON THE ENVIRONMENT – shifts LRAS, more production, more pollution, BUT encourages research
MARKET BASED ENCOURAGING COMPETITION	• Privatisation • Deregulation • Trade liberalisation
DEREGULATION	Involves removing many of the rules and regulations under which firms operate.
PRIVATISATION	Involves returning previously nationalized industry to the private sector
TRADE LIBERALIZATION	Involves removing barriers to trade (protectionist measures) and encouraging competition amongst exporting/importing firms/countries.
LABOUR MARKET REFORMS	• Abolish/reduce the minimum wage • Reduce unemployment benefits • Weaken unions • Reduce job security- easier to fire people
INCENTIVE RELATED POLICIES	• Reduce personal income tax • Reduce capital gains tax • Lower taxes on interest • Lower business taxes
EVALUATION	• TIME LAGS – can lower taxes straight away, but politically very difficult to do • IMPACT ON ECONOMIC GROWTH – firms are more innovative, know more, less opportunity

	country's exports • As national income increases so do levels of education, therefore greater demands for freedom and democracy – Benjamin Friedman's 'Moral consequences of economic growth'
NEGATIVES	• Does an increase in income equal happiness? Or improved standard of living? • Growth could make the economy more unequal if the increase in incomes is for high skilled workers, and creates bigger disparities in the ownership of factors to production • Could result in relative poverty • Higher income may be a result of less leisure time/neglecting personal relationships • If it involves structural changes from primary to secondary to tertiary sectors, or technological shifts, could lead to structural unemployment, widen inequality • If growth is demand led, leads to an increase in APL • Decreases real incomes and savings • Negative effect on the environment through greenhouse gases, more household waste, depletion of non-renewable resources, threat to sustainability, negative externalities of production
PHYSICAL CAPITAL	'Capital goods', standard type of capital, results from investment to produce machines, equipment, roads etc
HUMAN CAPITAL	The skills, abilities, knowledge and levels of health of workers. Human capital results from investments or spending on education, training healthcare, clean water, nutrition etc
NATURAL CAPITAL	Anything that falls within land or natural resources. Includes minerals, natural oil gas etc, rivers lakes forests, and ecosystems. Can be improved by planting forests etc or destroyed by polluting air, cutting down forests etc
HOW TYPES OF CAPITAL CAN BE IMPROVED	• **PHYSICAL** • Increase in machines, tools, equipment, ports etc • Quality depends on technological advances e.g. new computer • Improved capital goods are capital goods that embody a new technology, lead to larger quantity of output • **HUMAN** • Quantity not always important • Quality determined by education, skills, knowledge and levels of health • Result of investment in human capital e.g. schools, meals for school children and medical services, immunisation • Important for growth, a skilled and healthy worker can produce more