

This workshop is related to fiscal policy, which is carried out by the federal government

Workshop 7B

Fiscal Policy

1. The following table shows the consumption schedule for a closed economy (i.e. one that does not trade with other countries). Investment is currently \$40bn.

National income (Y) (\$bn)	30	60	90	120	150	180	210	240	270	300
Consumption (C) (\$bn)	20	40	60	80	100	120	140	160	180	200

- (a) Assuming that the government is currently spending \$20bn, what is the equilibrium level of national income?

- (b) Assuming that at this level of national income the government is running a budget deficit of \$5bn, what must be the level of saving in this economy?

- (c) What is the government expenditure multiplier?

Assume that full employment is achieved at a national income of \$240bn.

- (d) What is the size of the deflationary gap?
- (e) How much would government expenditure have to be raised (assuming no change in tax rates) in order to close this gap?

- (f) Alternatively, how much would taxes have to be changed (assuming no change in government expenditure) in order to close this gap.

2. Give three problems of using fiscal policy to achieve a precise level of national income.

- (a)
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- (b)
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- (c)

