Discussion questions

Business

Fiscal Policies That Affect Economy A fiscal policy is a decision by the government either to spend or collect revenue with an aim of manipulating the economy in a desired way.

Federal government uses two types of fiscal policies to regulate the economy. These include contractionary and expansionary fiscal policies. Contractionary fiscal policy is aimed at resuscitating the economic strength by decreasing the inflation rate or reducing the possibility of an inflation where anticipated. This is mainly done by decreasing government spending and increasing taxes. Expansionary fiscal policy is used to help close recessionary gap and reduce the rate of unemployment. The government releases lot of money for spending and reduces on taxes.

Given the economic conditions today, I would suggest an expansionary fiscal policy. This is because money in circulation in the market is less, which has discouraged spending, and thus the businesses are performing poorly. An expansionary fiscal policy increases flow of money in the economy, which favours factors of production. This helps increase production, which in turn increases the demand for labour. The rate of unemployment goes down as more people get job opportunities in the job market.

The government faces a budget deficit when there is more government spending than the collected revenue. The government should therefore raise taxes, reduce government spending, and sell government bonds and treasury bills as a measure to correct the deficit. Riley claims, “ Higher government borrowings today mean that taxes will have to rise in the future” (Riley web). However, this will reduce the disposable income hence constraining the economy more than expand it. The government should decrease spending as a way of correcting a deficit budget if it seeks for a

long-term solution.

Reference

Riley G. (2006). “ Essential guidance on economics exam technique”. Tutor 2U. Retrieved from http://tutor2u. net/economics/revision-notes/as-macro-government-borrowing. html