

Macroeconomics unit 4 assignment lane litton 7-1-11

[Economics](#), [Tax](#)



Macroeconomics Unit 4 assignment Lane Litton 7-1-11 1) Fiscal policy is the government's policy with respect to spending and taxation. It is set by the federal government. It impacts our economy in a couple of ways. Since government spending is a component of aggregate demand government spending on goods and services has a direct effect on the level of aggregate demand. Taxes also effect aggregate demand, however they do so indirectly. When tax's rise or fall, they change the disposable income of households, which alters consumption. 2) All the different government agencies present congress with the total amounts of money they would like to run their agencies for the next fiscal period. Congress haggles and tries to balance a complete budget by approving & disapproving the various amounts. Eventually the budget goes to the Senate for approval & then to the President. 3) Automatic stabilizers are elements of fiscal policy that automatically change in value as national income changes. Three examples of automatic stabilizers are progressive income taxes, welfare benefits, and unemployment benefits. 4) Fiscal policy is different in different economic systems. The government tends to play a larger role in investment spending in developing countries. A reason for this is that state owned enterprises account for a larger part of the economic activity in developing countries then they do in developed countries. Developing countries tend to rely more on government rather than the private sector to build their schools, roads, and hospitals then developed countries do. In developed countries the government tends to spend more on social services then in non developed countries. Governmental taxes also vary. In industrial countries social security taxes are common, while in developing countries they are rare. In

developing countries the taxes on international trade are very important.

Fiscal policy differs greatly depending on the economic system. 5)

Progressive taxes mean as income rises so does the rate of taxation.

Regressive taxes mean the tax rate falls as income rises. Proportional taxes mean the tax rate is constant as income rises. Taxes are usually progressive

because they help offset the effect of lower income on spending. 6) Money

has many functions. It can be a medium of exchanges, a unit of account, a store of value, and a standard of deferred payment. As a medium of

exchange it is willingly accepted for the payment of products and services.

As a unit of account we price goods and services in terms of money. This

makes comparing relative values easy. As a store of value it is not

perishable. It is durable, and has the ability to retain value over a period of

time. As a standard of deferred payment debt obligations are written in

terms of money values. 7) Liquidity refers to liquid assets. It is a measure of

asset that can easily be exchanged for goods and services. It's important to

individuals and businesses to have liquid assets in order to easily make

purchases. 8) A financial intermediaries are middle men between savers and

barrowers. The role of them in our economy is to provide a safe place for us

to deposit our money and earn some interest on it, and to have someone to

barrow from if necessary. My bank functions as a financial intermediary by

playing the role between a saver and a barrower. I may deposit 100\$ in

account, making me a saver. The bank may then turn around and loan 90\$

to someone else needing to barrow. The bank charges higher interest rates

on those who barrow then it pays to those who deposit, this is how the bank

makes its profit as the middle man. 9) There are a few different factors that

could cause the actual expansion of money to differ from the expansion multiplier. One is if banks hold more reserves than the minimum required, they lend a smaller fraction of new deposits, this reduces the effect of the deposit expansion multiplier. Currency drain (money being withdrawn from the bank and kept in cash) also reduces the deposit multiplier. The deposit expansion multiplier indicates the maximum possible change, not necessarily the real change. 10) 1- ten dollar bill 2-travelers' check 3-savings account with 400\$ in it 4-personal check from 20\$ 5- stereo 6-car 7-house