Quizlet

# 12 Economics 14 Fiscal Policy

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| 1. | **automatic stabilisers** | the policy instruments in the government's budget that counterbalance economic activity; in a boom period, they decrease economic activity and in a recession, they increase economic activity; the most common examples are transfer payments and progressive tax system |
| 2. | **the budget** | the tool of the government for the exercise of fiscal policy; it shows the government's planned expenditure and revenue for the next financial year |
| 3. | **budget deficit** | usually financed through borrowing from the private sector, which reduces national saving and may put upward pressure on interest rates |
| 4. | **counter-cyclical policies** | economic policies designed to smooth fluctuations in the business cycle; macroeconomic policies such as fiscal policy and monetary policy are usually used as counter-cyclical policies |
| 5. | **crowding out effect** | occurs where government spending is financed through borrowing from the private sector, which puts upward pressure on interest rates and 'crowds out' private sector investors who cannot borrow at the higher rates of interest |
| 6. | **fiscal policy** | is a macroeconomic policy that can influence resource allocation, redistribute income and reduce the fluctuations of the business cycle; its instruments include government spending and taxation and the budget outcome |
| 7. | **a public good** | an item that private firms are unwillingly to provide as they are not able to restrict usage and benefits to those willing to pay for the good; because of this governments generally provide these goods |