Fiscal Policy

Your Name (First M. Last)

School or Institution Name (University at Place or Town, State)

**Fiscal Policy**

Fiscal policy is the process to balance government revenue and expenditure to increase the growth of the economy. According to classical, there is no role of fiscal policy in the economy while Keynesian says that aggregate demand is affected by the change in the level of government revenue and expenditure.

**Tools of fiscal policy:**

Fiscal policy has two tools, i.e. tax and government spending.

* Taxation: It is the form of income that the government uses. It includes money from capital gain, income, sales, and property.
* Government spending: All the government expenditure in the form of subsidies, and transfer payment are included in government spending. A transfer payment is made for welfare programs like salaries of government sectors and public welfare projects.

The balance between taxation and government spending is crucial because when spending is more than the revenue through taxes then economy face deficit and when revenue is more than the spending then economy face surplus (Kramer, n.d.).

**Expansionary Fiscal policy:**

It defines the decision and policy-making by the government to increase the aggregate demand either by increasing government spending or decreasing tax. During the great recession of expansionary fiscal policy failed because when America tried to decrease the tax rate in the theory economy should boost, but in reality it did not happen. The economy was also facing downfall in housing prices, credit shortage, and lower confidence, and these factors lead to the ineffectiveness of expansionary fiscal policy.

Crowding out happens when the government increases their expenditure. During the great recession when the government tried to increase their spending private saving rate start increasing because the government borrowed money from private sector and in result government somehow successfully injected money into the circular flow but not as much as required (“Impact of Expansionary Fiscal Policy - Economics Help,” n.d.).

References

Impact of Expansionary Fiscal Policy - Economics Help. (n.d.). Retrieved from https://www.economicshelp.org/blog/617/economics/impact-of-expansionary-fiscal-policy/

Kramer, L. (n.d.). What is Fiscal Policy?