



**CHAPTER LEARNING OBJECTIVES**

1. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN THE CONCEPT OF FISCAL POLICY**
2. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE STRATEGIES FOR FISCAL POLICY**
3. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE LIMITATIONS OF FISCAL POLICY**
4. **STUDENTS WILL BE ABLE TO DEFINE THE MULTIPLIER EFFECT AND EXPLAIN HOW IT WORKS TO HELP CONTROL THE ECONOMY**
5. **STUDENTS WILL BE ABLE TO IDENTIFY, DEFINE, AND EXPLAIN THE 3 FISCAL POLICY PHILOSOPHIES FOR FREE MARKET ECONOMIC SYSTEMS**
6. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN WHAT THE FEDERAL BUDGET AND FISCAL YEAR IS**
7. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE STEPS IN THE FEDERAL BUDGET PROCESS**
8. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN WHAT A BUDGET DEFICIT IS**
9. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE OPTIONS THAT ARE AVAILABLE TO MANAGE BUDGET DEFICITS**
10. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN WHAT THE NATIONAL DEBT IS**

**WHAT IS THE ORIGIN OF THE WORD “FISCAL” ?**

**WHAT IS “FISCAL POLICY” ?**



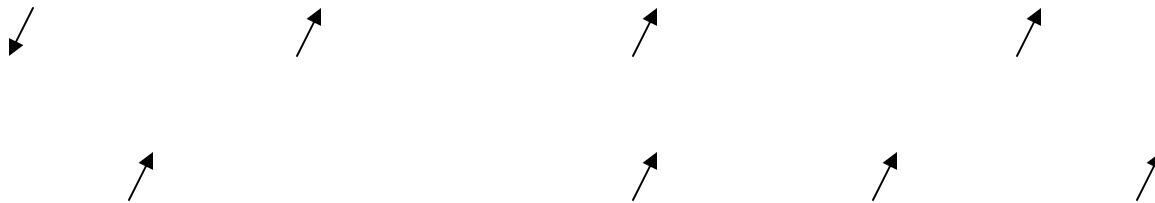
**HOW DOES FISCAL POLICY WORK AS A TOOL TO CONTROL THE ECONOMY?**

**WHAT IS THE “MULTIPLIER EFFECT” ?**

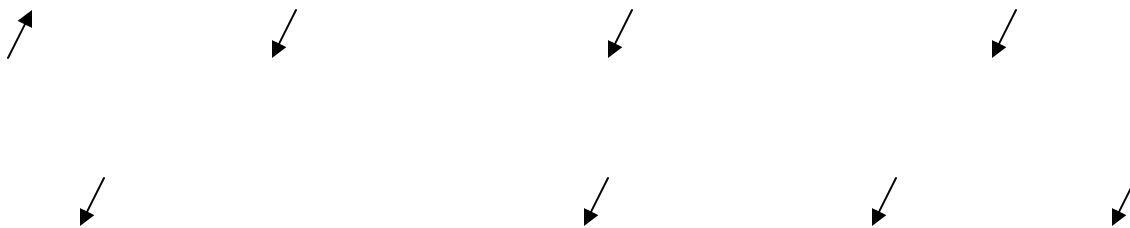


**WHAT ARE THE 2 STRATEGIES REGARDING FISCAL POLICY USE AS A TOOL FOR MANAGING THE ECONOMY ?**

**1. “EXPANSIONARY POLICIES” -**



**2. “CONTRACTIONARY POLICIES” -**



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**DR. HOLDEN VIDEO > AUTOMATIC ECONOMIC STABILIZER EXAMPLES**

**DURING A GROWTH , OR BOOM , PERIOD :**

- 1. GOVERNMENT SPENDING ON WELFARE \_\_\_\_\_  
BECAUSE UNEMPLOYMENT IS \_\_\_\_\_**
- 2. WAGES GO UP AND AS A RESULT PEOPLE PAY \_\_\_\_\_ IN  
\_\_\_\_\_ WHICH LIMITS THEIR ABILITY TO \_\_\_\_\_**

**DURING A RECESSION :**

- 1. GOVERNMENT SPENDING ON WELFARE \_\_\_\_\_**

**BECAUSE UNEMPLOYMENT IS \_\_\_\_\_**

**2. WAGES GO DOWN AND AS A RESULT PEOPLE PAY \_\_\_\_\_ IN  
\_\_\_\_\_ WHICH LIMITS THEIR ABILITY TO \_\_\_\_\_**

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**WHAT ARE THE 5 LIMITS OF FISCAL POLICY AS A TOOL ?**

1.

2.

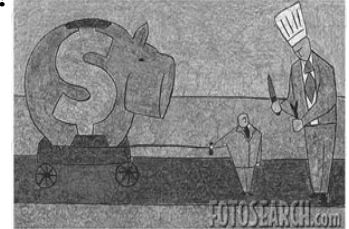
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4.

5.

1.

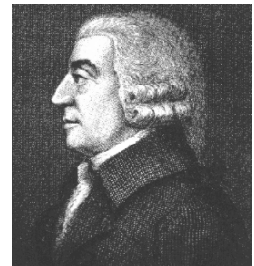
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**DIVIDING THE  
PORK**

**WHAT ARE THE 3 THREE FISCAL POLICY PHILOSOPHIES THAT ARE POPULAR  
IN FREE MARKET ECONOMIES ?**

1. “ CLASSICAL ECONOMICS ” -



2. “ KEYNESIAN ECONOMICS ” -



3. “ SUPPLY SIDE ECONOMICS ” -



1.

2.

**“SAY’S LAW” -**



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**Laffer Curve Video**

**CONCEPTS BEHIND THE LAFFER CURVE :**

1. **THAT TAX CUTS , IN SOME CIRCUMSTANCES . WILL GENERATE \_\_\_\_\_ GOVERNMENT REVENUE**

2. **HIGH TAX RATE CREATES A \_\_\_\_\_ TO PRODUCE**

**TRUE OR FALSE ?**

1. **ALL TAX CUTS PAY FOR THEMSELVES**

2. **ALL TAX CUTS ARE EQUAL**

3. **TAX CUTS THAT ENCOURAGE PRODUCTION ARE MORE FAVORABLE**

4. **THE GOAL OF TAX CUTS SHOULD BE TO PROMOTE GROWTH RATHER THAN MAXIMIZE GOVERNMENT REVENUES**

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**WHAT SHOULD POLICY BE ? THE 4 HISTORICAL POINTS REGARDING FISCAL POLICY :**

1.

2.

3.



4.



**WHO CAUTIONED AGAINST USING TOO MUCH OF KEYNESIAN FISCAL POLICY TO EFFECTIVELY REGULATE THE ECONOMY AND WHY ?**



**WHAT IS THE “FEDERAL BUDGET” ?**

**WHAT IS A “FISCAL YEAR” ?**



**WHAT ARE THE 6 STEPS TO THE FEDERAL BUDGET PROCESS ?**

1.

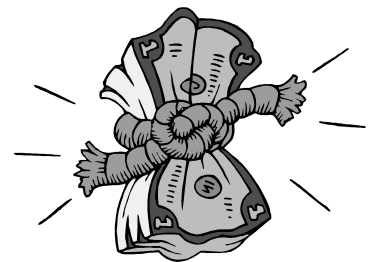
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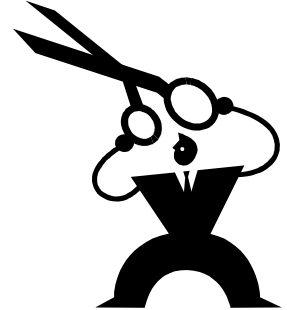
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**WHAT IS A “DEFICIT” ?**

**WHAT ARE THE 5 OPTIONS AVAILABLE TO MANAGE DEFICITS ?**

- 1.
- 2.
- 3.
- 4.
- 5.



**WHAT IS THE “NATIONAL DEBT” ?**

**WHAT ARE THE 5 MAJOR ISSUES REGARDING THE NATIONAL DEBT ?**

- 1.
- 2.



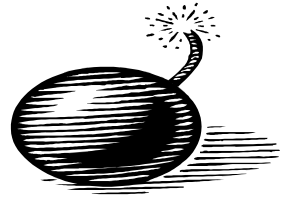
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**SHORT VIDEO ON THE POTENTIAL FOR CHINA TO CALL IN THEIR LOANS :**

**LISTEN AND NOTE TWO REASONS WHY CHINA IS NOT LIKELY TO CALL IN THEIR LOANS TO THE UNITED STATES**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. **“CROWDING OUT EFFECT” -**

4.

5.



## ***HOW THE MULTIPLIER EFFECT WORKS***

### ***MULTIPLIER EFFECT .....***

#### ***1. GOVERNMENT :***

***1.***

***2.***

#### ***2. FEDERAL RESERVE > DECREASING OR INCREASING :***

***1.***

***2.***

***3.***

### ***TO UNDERSTAND .....***

***“ AVERAGE PROPENSITY TO CONSUME ” -***

***“ MARGINAL PROPENSITY TO CONSUME ” -***

***“ MARGINAL PROPENSITY TO SAVE ” -***

### ***THE MULTIPLIERS :***

***1. “ INVESTMENT MULTIPLIER ” -***

***2. “ GOVERNMENT SPENDING MULTIPLIER ” -***

***3. “ TAX MULTIPLIER ” -***

**MULTIPLIER TABLE**

<i>MPC</i>	<i>INVESTMENT MULTIPLIER</i>	<i>GOVERNMENT SPENDING MULTIPLIER</i>	<i>TAX MULTIPLIER NEGATIVE IF INCREASED</i>
<i>.90</i>	<i>10.0</i>	<i>10.0</i>	<i>- 9.0</i>
<i>.80</i>	<i>5.0</i>	<i>5.0</i>	<i>- 4.0</i>
<i>.75</i>	<i>4.0</i>	<i>4.0</i>	<i>- 3.0</i>
<i>.60</i>	<i>2.5</i>	<i>2.5</i>	<i>- 1.5</i>
<i>.50</i>	<i>2.0</i>	<i>2.0</i>	<i>- 1.0</i>

**MULTIPLIER EXAMPLE**

<i>ROUND</i>	<i>INCREASE IN INCOME (GDP)</i>	<i>MPC</i>	<i>MPS</i>
<i>ROUND 1</i>	<i>\$ 1,000</i>	<i>.75 OF \$ 1,000 = \$ 750</i>	<i>.25 OF \$ 1,000 = \$ 250</i>
<i>ROUND 2</i>	<i>ONE PERSON'S SPENDING BECOMES ANOTHER'S INCOME = \$ 750</i>	<i>.75 OF \$ 750 = \$ 562.50</i>	<i>.25 OF \$ 750. = \$ 187.50</i>
<i>ROUND 3</i>	<i>THE NEXT PERSON'S SPENDING BECOMES ANOTHER'S INCOME = \$ 562.50</i>	<i>.75 OF \$ 562.50 = \$ 421.88</i>	<i>.25 OF \$ 562.50 = \$ 140.62</i>
<i>ROUND 4</i>	<i>ETC. \$ 421.88</i>	<i>.75 OF \$ 421.88 = \$ 316.41</i>	<i>.25 OF \$ 421.88 = \$ 105.47</i>
<i>TOTAL</i>	<i>FINAL OUTCOME FOR INCOME (GDP) = (1 / MPC = 4) X \$ 1,000 = \$ 4,000</i>	<i>FINAL OUTCOME FOR CONSUMPTION SPENDING = .75 OF \$ 4,000 = \$ 3,000</i>	<i>FINAL OUTCOME FOR SAVING = .25 OF \$ 4,000 = \$ 1,000</i>

**SAMPLE MULTIPLIER EFFECT QUESTIONS :**

- 1. WHAT WOULD BE THE VALUE OF THE TAX MULTIPLIER OF THE MPC IS .60 ?**
- 2. WHAT IS THE VALUE OF THE GOVERNMENT SPENDING MULTIPLIER IF THE MPC IS .67 ?**
- 3. IF THERE IS A COUNTRY WITH AN MPC OF .75 IN WHICH THE GOVERNMENT INCREASED SPENDING BY \$100. AND INCREASED TAXES BY \$100. , WHAT THEN WOULD BE THE CHANGE IN GDP ?**

**THE “ VELOCITY OF MONEY ” -**

- 1.**
- 2.**

**HOW IS IT CALCULATED ?**

**EXAMPLE :**

**SUPPOSE THAT THE ECONOMY PRODUCES 100 PIZZAS IN A YEAR , THAT A PIZZA SELLS FOR \$10. , AND THE QUANTITY OF MONEY IN THE ECONOMY IS \$50. WHAT IS THE VELOCITY OF MONEY , IN OTHER WORDS HOW MANY TIMES DOES A DOLLAR TURN OVER TO CONSUME ALL THE PIZZAS ?**

$$V = ( P \times Y ) / M$$

$$V = ( \$10. \times 100 ) / \$50.$$