Fiscal Policy 9-12

Fiscal Policy is the idea that the US Government can help the economy through the use of taxes and government spending.

When the government spends more money, or taxes the people less, this is **Expansionary Fiscal Policy**. These two actions work to expand the economy by circulating money. When money circulates, the money spent becomes another's income. When businesses earn a higher profit, they can hire more employees- who then have a job (which drops unemployment) and earn an income. This helps to take care of the needs and wants of the people when the economy is slow, or is in a recession. A recession is a period of two consecutive business cycles of falling gross domestic product. This means that production is falling and people typically don't have the means to buy the things they want and need.

Sometimes the nation deals with inflation. Inflation is when prices are too high for people to buy the things they need and want for their families. In order for the United States government to help people by making decisions which slow down the circulation of money, they must pull money out of the economy. The government can choose to stop spending money on things like repairing highways, the military or new schools. The drop of government spending helps to slow down the circulation of money which drives prices down. The other **Contractionary Fiscal Policy** action is to tax the people more. When taxes go up, the people have less money available for spending.

The government works to help the people through Expansionary or Contractionary Fiscal Policy. The government is limited to two actions: taxing and spending. It is their choice whether to use one action or two actions. When politicians make decisions about what to do, it is difficult to know the exact consequences of making choices with fiscal policy. Sometimes the short term consequences do well but the long term consequences cause additional problems in the economy.

Complete the grid below, by making a decision on what type of fiscal policy should be used to help solve economic problems. Circle the answer.

1.

Economic Problem	**Solution Needed**		**Government Spending**		**Taxes**	
Inflation	Expansionary	Contractionary	More	Less	Raise	Lower
Recession	Expansionary	Contractionary	More	Less	Raise	Lower
Low production	Expansionary	Contractionary	More	Less	Raise	Lower
Unemployment	Expansionary	Contractionary	More	Less	Raise	Lower

2. What may be a long term consequence of Expansionary Fiscal Policy?

3. What may be a long term consequence of Contractionary Fiscal Policy?

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2. What may be a long term consequence of Expansionary Fiscal Policy?

Too much expansion can cause Inflation.

3. What may be a long term consequence of Contractionary Fiscal Policy?

Too much contraction can cause Unemployment or a Recession.