Definitions and Concepts for AQA Economics A-level

Paper 2: Macroeconomics

Topic 5 – Fiscal and Supply-Side Policies

Automatic stabilisers: Parts of fiscal policy that automatically react to changes of the economic cycle

Balanced budget: Achieved when government expenditure equals government revenue

Budget deficit: Achieved when government expenditure exceeds government revenue

Budget surplus: Achieved when government revenue exceeds government expenditure

Contractionary fiscal policy: Fiscal policy implemented to decrease aggregate demand

Corruption: Government failure through abuse of power

Crowding out: When an increase in government spending displaces private spending, with little to no increase in aggregate demand

Cyclical budget deficit: Part of the budget that tends to rise in economic slumps and fall in economic booms

Debt sustainability: The ability to manage debt so that it doesn't impede growth or stability

Deficit financing: Borrowing to finance a budget deficit

Deindustrialisation: Decline in the manufacturing industry of an economy

Demand-side policy: Government policies that aim to alter aggregate demand in the economy

Deregulation: Removing regulations

Direct tax: A tax on income and wealth

Discretionary fiscal policy: Altering taxation and government spending as a response to an economic cycle stimulus (e.g. a recession)

Dumping: When a producer exports products at a price lower than the prices charged in their home country, or lower than the costs of production

Expansionary fiscal policy: Fiscal policy implemented to increase aggregate demand

Fiscal austerity: When the government enacts policies to reduce the size of a fiscal deficit

Fiscal policy: Use of government spending and taxation to achieve macroeconomic objectives

Fiscal stimulus: Changing taxation and government spending to boost demand and output

Human capital flight (Brain drain): When economies experience net outward migration of skilled/ young workers

Hypothecation: When tax revenue is saved to be used later for a specific purpose

Indirect tax: A tax on expenditure

Interventionist policies: Occur when the government intervenes in, and sometimes replaces, free markets

Laffer curve: Curve illustrating the relationship between tax revenues and tax levels

Marketisation: Shifting the provision of goods or services from the non-market sector to the market sector

National debt: Unpaid government debt

Natural rate of unemployment (NRU): Unemployment rate when the aggregate labour market is in equilibrium

Principle of taxation (canon of taxation): Criterion used to judge whether a tax is good or bad

Privatisation: Shifting the ownership of state-owned assets to the private sector

Progressive taxation: Taxes where a larger proportion of income is paid as income rises

Proportional taxation: Taxes where the same proportion of income is paid as income rises

Reflationary policies: Policies to increase aggregate demand, with intent to increase real output and employment

Regressive taxation: Taxes where a smaller proportion of income is paid as income rises.

Reindustrialise: Growth in the manufacturing industry of an economy

Structural budget deficit: Part of the budget that is unaffected by the economic cycle, and is more dependent on the decisions of the government

Supply-side: Relates to changes in potential output of the economy which is affected by the factors of production

Supply-side improvements: Reforms undertaken by the private sector to enable firms to become more productively efficient

Supply-side policies: Use of interventionist policies to encourage efficient markets, thus achieving macroeconomic objectives

Tax threshold: The level above which income tax must be paid