OCR Economics A-Level

Macroeconomics

Topic 3 - Implementing Policy

Flashcards

Fiscal policy

Fiscal policy

The use of borrowing, government spending and taxation to manipulate the level of AD and improve macroeconomic performance

Fiscal rules

Fiscal rules

A long term constraint on fiscal policy by putting numerical limits on the budget

Indirect tax

Indirect tax

Tax where the person charged with paying the money to the government is able to pass on the cost to someone else; a tax on consumption that increases costs for producers

Direct tax

Direct tax

Taxes imposed on income and paid straight to the government by the individual taxpayer

Progressive taxation

Progressive taxation

Where those on higher incomes pay a higher marginal rate of tax; those on higher incomes pay a higher percentage of their income on tax

Proportional taxation

Proportional taxation

The proportion of income paid on tax remains the same whilst the income of the taxpayer changes; everyone pays the same percentage of their income on tax

Regressive taxation

Regressive taxation

Where the proportion of income paid in tax falls whilst the income of the taxpayer increases; those on lower incomes pay a higher percentage of their income on tax

Automatic stabilisers

Automatic stabilisers

Mechanisms which reduce the impact of changes in the economy on national income

PMT
resources • tuition • courses

Discretionary fiscal policy

Discretionary fiscal policy

Deliberate manipulation of government expenditure and taxes to influence the economy; expansionary and deflationary fiscal policy

Balanced budget

Balanced budget

When government spending equal tax revenue

Budget deficit

Budget deficit

When the government spends more money than it receives

Budget

Budget position/fiscal stance

The impact that taxes and government spending has on the future economy

Budget position on current expenditure

Budget position on current expenditure

The flow of cash during one period of time

Budget surplus

Budget surplus

When the government receives more money than it spends

Current government expenditure

Current government expenditure

Spending on goods and services which are consumed and last for a short time

Capital government expenditure

Capital government expenditure

Government spending on investment goods such as new roads, schools and hospitals, which will be consumed in over a year

Cyclical budget position

Cyclical budget position

A temporary budget position, which is related to the business cycle

Structural budget position

Structural budget position

Budget which is either in a deficit or surplus due to an imbalance in revenue and expenditure of the government, as it exists at every point in the business cycle

Overall budget position

Overall budget position

An accumulation of deficits and surpluses over time to give the overall budget

National debt

National debt

The sum of government debts built up over many years

Crowding out

Crowding out

When government borrowing discourages private sector investment or when government provision of a good or service prevents it being provided by the private sector

Crowding in

Crowding in

When government borrowing leads to an increase in private investment

Laffer curve

Laffer curve

Shows that a rise in tax rates does not necessarily lead to a rise in tax revenue, due to the impact on incentives and work

Average tax rates

PMT
•resources•tuition•courses

Average tax rates

The amount of tax paid as a proportion of income

Marginal rate of tax

Marginal rate of tax

The rate of tax applied to the next unit of currency in income e.g. the rate of tax on the next pound earnt in the UK

Monetary policy

Monetary policy

The attempts of the central bank/regulatory authority to control the level of AD by altering base interest rates or the amount of money in the economy

Money supply

Money supply

Stock of money in the economy

Interest rates

Interest rates

The price of money

Symmetric inflation targeting

Symmetric inflation targeting

When the Central Bank intervenes when inflation is too high or too low

Asymmetric inflation targeting

Asymmetric inflation targeting

When the Central Bank only intervenes when inflation is too high, not when it is too low

Quantitative easing

Quantitative easing

When the central bank buys assets in exchange for money in an attempt to increase the money supply

Liquidity trap

Liquidity trap

When a change in the money supply does not change the interest rate, which means monetary policy cannot be used to influence consumption/investment

PMT
•resources•tuition•courses

Supply-side policies

Supply-side policies

Government policies aimed at increasing the productive potential of an economy and shifting LRAS to the right