OCR Economics A-level

Macroeconomics

Topic 3 – Implementing Policy

Definitions and Concepts

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3.1 – Fiscal policy

Automatic stabilisers - Mechanisms which reduce the impact of changes in the economy on national income.

Average tax rates - The amount of tax paid as a proportion of income. Expressed by: total tax / total income.

Balanced budget - When government spending equals tax revenue.

Budget deficit - When the government spends more money than it receives.

Budget position on current expenditure - The flow of cash during one period of time.

Budget position/ fiscal stance - The impact that taxes and government spending has on the future economy.

Budget surplus - When the government receives more money than it spends.

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

Crowding in - When government borrowing leads to an increase in private investment.

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.

Current government expenditure - Spending on goods and services which are consumed and last for a short time.

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

Direct tax - Taxes imposed on income and paid straight to the government by the individual taxpayer.

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

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

Fiscal rules - A long-term constraint on fiscal policy by putting numerical limits on the budget.

Government expenditure - Spending by the government for the provision of goods and services.

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.

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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.

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

National debt - The sum of government debts built up over many years.

Overall budget position - An accumulation of deficits and surpluses over time to give the overall budget.

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

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.

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

3.2 – Monetary policy

Asymmetric inflation targeting - When the Central Bank only intervenes when inflation is too high, not when it is too low.

Interest rates – The price of borrowing money.

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 and investment.

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 - Stock of money in the economy.

Quantitative easing - When the central bank buys assets in exchange for money in an attempt to increase the money supply.

Symmetric inflation targeting - When the Central Bank intervenes when inflation is too high or too low.

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3.3 – Supply side policy

Supply-side policies - Government policies aimed at increasing the productive potential of the economy and shifting LRAS to the right.