Fiscal policy involves varying the overall level of public (government) expenditure and / or taxation in an economy to manage aggregate demand and influence the level of economic activity. Organise the statements into two groups, those related to an expansionary fiscal policy and those related to an contractionary policy.

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| It aims to increase aggregate demand. |
| It aims to reduce pressure on prices in the economy by cutting aggregate demand. |
| This policy often involves cutting public sector wages, and raising taxes. |
| This policy may reduce disposable income and consumer spending. |
| If the government fears that the economy is going to contract they may use this policy. |
| With this policy there is the risk that people will save their extra money or spend it on imported goods or services. |
| Economic bubbles are periods of over optimistic expectations for a particular industry. Prices of stock and other assets in bubble industries are overstated and unstable and, when the bubble collapses, the economy can suffer a significant setback. When the government fears economic bubbles, it may implement this fiscal policy. |
| Cutting taxes may encourage people to work more and motivate employees to be more productive thus increasing the amount of disposable income people have to spend. |
| Often governments will implement this policy during an economic recession. |
| The government disfavors inflation because it leads to uncertainty in the economy and creates inefficiencies by making it more difficult for businesses and other organizations to budget and plan for the future. The government will often use this policy to slow an expanding economy to reduce the chances of inflation. |
| This policy may lead to unemployment and a reduction in growth |