

**Understanding your financial world**

**Fiscal Policy Exercise**

Test your understanding of fiscal policy by completing the following table (all your answers must be consistent e.g. if you choose an expansionary policy, your actions must be consistent with that policy). The first scenario has been done as an example for you to follow.

If I were the Minister of Finance, I would take the following actions in the situations described:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | My fiscal policy would be: | I would \_\_\_\_ | and/or I would \_\_\_\_ | My budget is currently balanced, so the effect on my budget would be to: |
|  | [insert **expansionary** or **contractionary** in this column] | [insert **increase taxes** or **decrease taxes** in this column] | [insert **increase** **government spending** or **decrease government spending** in this column] | [insert **move my budget toward surplus** or **move my budget toward a deficit**] |
| Inflation is trending up and is expected to be 10% for next year. | Contractionary | Increase taxes | Decrease government spending | Move my budget toward a surplus |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | My fiscal policy would be: | I would \_\_\_\_ | and/or I would \_\_\_\_ | My budget is currently balanced, so the effect on my budget would be to: |
|  | [insert **expansionary** or **contractionary** in this column] | [insert **increase taxes** or **decrease taxes** in this column] | [insert **increase** **government spending** or **decrease government spending** in this column] | [insert **move my budget toward surplus** or **move my budget toward a deficit**] |
| Unemployment is currently 3.5% but is expected to double within the next twelve months. |  |  |  |  |
| Exports have reached record levels, house prices are rising sharply and employers are having trouble trying to find enough employees to meet their orders. |  |  |  |  |
| Surveys show that retail sales are weak and business confidence is low. |  |  |  |  |