Your notes

GCSE Economics: revision notes

Fiscal policy

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What fiscal policy is

- **Fiscal policy** is the use of government spending and taxation to influence the economy. It is decided by the government (the Chancellor of the Exchequer presents the Budget).
- **Direct taxes** are on income and wealth (income tax, corporation tax). **Indirect taxes** are on spending (VAT at 20% standard rate, excise duties).

Expansionary and contractionary policy

- **Expansionary fiscal policy**: more spending or lower taxes. It boosts demand, growth and jobs, but may raise inflation and borrowing.
- Contractionary **fiscal policy**: less spending or higher taxes. It reduces demand and inflation, but may slow growth.

The budget

- A **budget deficit** is when government spending is greater than tax revenue in a year; the government borrows to fill the gap.
- A **budget surplus** is when revenue is greater than spending.
- The **national debt** is the total amount the government owes from past borrowing. Interest on the debt has an opportunity cost.

Main areas of spending

- In the UK, the biggest areas are social protection (pensions and benefits) and health, followed by education.

Key terms

Fiscal policy	Using government spending and taxation to influence the economy.

Direct tax	A tax on income or wealth, such as income tax.
Indirect tax	A tax on spending, such as VAT.
Budget deficit	When government spending is greater than tax revenue in a year.
Budget surplus	When tax revenue is greater than government spending.
National debt	The total amount the government owes.
Expansionary fiscal policy	Increasing spending or cutting taxes to boost the economy.

Your notes

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What is fiscal policy?
2. Which is a direct tax?
3. Which is an indirect tax?
4. What is the standard rate of VAT in the UK?
5. What is a budget deficit?
6. What is the national debt?
7. What is expansionary fiscal policy?
8. What is a risk of expansionary fiscal policy?

Answers

1. Using government spending and taxation to influence the economy
2. Income tax
3. VAT
4. 20%
5. When government spending is greater than tax revenue in a year
6. The total amount the government owes
7. Increasing spending or cutting taxes
8. Inflation and more borrowing

What to do next

Practise 10 questions on this topic

Try 3 exam questions, with mark schemes

Read the lesson, one step at a time

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