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|  | **Definition of 'Fiscal Policy'**  Government spending policies that influence macroeconomic conditions. Through fiscal policy, regulators attempt to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy. Fiscal policy is largely based on the ideas of British economist John Maynard Keynes (1883–1946), who believed governments could change economic performance by adjusting tax rates and government spending. |
|  | **Expalin the Fiscal Policy**  To illustrate how the government could try to use fiscal policy to affect the economy, consider an economy that’s experiencing a recession. The government might lower tax rates to try to fuel economic growth. If people are paying less in taxes, they have more money to spend or invest. Increased consumer spending or investment could improve economic growth. Regulators don’t want to see too great of a spending increase though, as this could increase inflation.  Another possibility is that the government might decide to increase its own spending – say, by building more highways. The idea is that the additional government spending creates jobs and lowers the unemployment rate. Some economists, however, dispute the notion that governments can create jobs, because government obtains all of its money from taxation – in other words, from the productive activities of the private sector.  One of the many problems with fiscal policy is that it tends to affect particular groups disproportionately. A tax decrease might not be applied to taxpayers at all income levels, or some groups might see larger decreases than others. Likewise, an increase in government spending will have the biggest influence on the group that is receiving that spending, which in the case of highway spending would be construction workers.  Fiscal policy and monetary policy are two major drivers of a nation’s economic performance. Through monetary policy, a country’s central bank influences the money supply. Regulators use both policies to try to boost a flagging economy, maintain a strong economy or cool off an overheated economy. |

**Fiscal policy**

From Wikipedia, the free encyclopedia

In [economics](http://en.wikipedia.org/wiki/Economics) and [political science](http://en.wikipedia.org/wiki/Political_science), **fiscal policy** is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy.[[1]](http://en.wikipedia.org/wiki/Fiscal_policy#cite_note-1) The two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors. These changes can affect the following [macroeconomic](http://en.wikipedia.org/wiki/Macroeconomic) variables in an economy:

* [Aggregate demand](http://en.wikipedia.org/wiki/Aggregate_demand) and the level of economic activity;
* The [distribution of income](http://en.wikipedia.org/wiki/Income_distribution);
* The pattern of [resource allocation](http://en.wikipedia.org/wiki/Resource_allocation) within the [government sector](http://en.wikipedia.org/wiki/Government_sector) and relative to the [private sector](http://en.wikipedia.org/wiki/Private_sector).
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