



3055 BA SANGAM COLLEGE

PH: 6674003/9264117 E-mail: basangam@connect.com.fj



LESSON NOTES (WORKSHEET 7)

SCHOOL: BA SANGAM COLLEGE

YEAR: 12

Name: _____

SUBJECT: ECONOMICS

Strand	Macroeconomics
Sub Strand	Government Budget
Content Learning Outcome	Examine the different types of budget with their effects on the economy.

LESSON NOTES

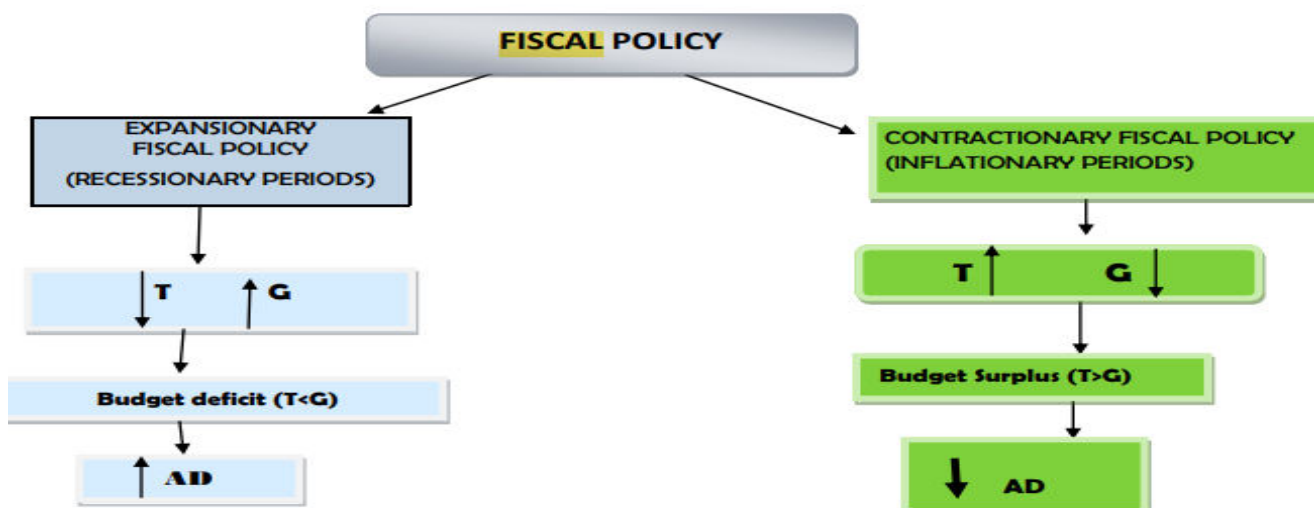
GOVERNMENT BUDGET

The effects of internal and external borrowing.

- Internal borrowing: public and local financial institutions.
 - Crowding out effect- means decrease in the level of investment due to transfer of funds from private sector to government.
 - Increase in money supply- Borrowing from Reserve Bank simply means printing more money and resulting in Inflation
- External borrowing: IMF, ADB, WB. - Increase in national debt and debt servicing burden.

Note: Budget deficit leads to expansionary effect & Budget surplus leads to Contractionary effect on the economy.

The use of fiscal policy to regulate the economy



ACTIVITY

A. Classify each of the following government actions as either Fiscal Policy (FP) or Monetary Policy (MP) or Direct Control (DC) by placing a tick (✓) in the appropriate column. (5 marks)

Government Actions	FC	MC	DC
Increase funding for projects to help the unemployed.			
Increase in minimum wage rate.			
Not allow retail stores to open on Sunday.			
Charge taxes on foreign goods.			
Control interest rate through reserve bank.			

B. Use the information below to answer the questions that follow.

Country Z's National Budget 2014 \$m Expenditure 1961.7 Revenue 1745.7

i. Calculate the balance in Country Z's 2011 budget, indicating whether it is a surplus or deficit balance.
_____ (2 marks)

ii. Explain the effect of the type of budget balance you identified above on Country Z's economy.

_____ (2 marks)

iii. State what a government can do with the surplus revenue when it runs a budget surplus?
_____ (2 marks)

C. 'The national budget is seen as the primary instrument for the government's involvement in the economy'. Discuss the above statement with reference to:

- the definition of National Budget and two main components: _____

_____ (3 marks)

- the condition that gives rise for a deficit for a deficit budget National Budget:
_____ (1 mark)

- any two reasons why a deficit National Budget is good for macro-economy

_____ (2 marks)

- the relationship that exists between a deficit National Budget and the money supply

_____ (3 marks)