

PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI

LESSON NOTES

Subject: Economics

Year/Level: 12

Week 14

Strand	3	Macroeconomics
Sub Strand	3.2	Government Budget
Content Learning Outcome	Explore the ways of financing budget deficit and their effects.	

Greetings to all...

In the last lesson we looked at the calculation of government budget and ways of financing deficit with its effects.

Let's now look at another example activity..

Example (Copy in your note book)

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.

$$\begin{aligned}\text{Government budget} &= \text{Government revenue} - \text{Government expenditure} \\ &= \$1745.7\text{m} - 1961.7 \\ &= - \$216\text{m} \text{ or } \$216\text{m deficit}\end{aligned}$$

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

A deficit budget will lead to an **expansionary effect** in the economy whereby employment, income and output will increase resulting into an increase in aggregate demand.

Homework Activity (Copy and solve in your activity book)

MULTIPLE CHOICE QUESTIONS

1. The result of a surplus in national budget is
 - A. Contractionary effect in the economy
 - B. Expansionary effect in the economy
 - C. Increase in employment in the economy
 - D. Increase in the level of economy activity in the economy.
2. Borrowing from general public by selling government bonds would result in
 - A. Decrease in money supply in the economy
 - B. Crowding out effect
 - C. Multiplier effect
 - D. Leakage effect
3. Negative effect of borrowing on the economy would be
 - A. Increase in Compensating deficit
 - B. Increase in output in the economy
 - C. Increase in debt servicing burden.
 - D. Increase in investment
4. Government trying to bring fairness in income distribution and wealth through progressive taxation and welfare benefits is example of
 - A. Allocative role
 - B. Stabilization role
 - C. Regulative role
 - D. Redistributive role
5. A fiscal policy tool used by government to control the fluctuations in the trade cycle is
 - A. National budget
 - B. Interest rate
 - C. Reserve ratio
 - D. Open market operations
6. Which of the following is **not** a fundamental role of government?
 - A. Allocative
 - B. Stabilizing
 - C. Marketing
 - D. Distributive

We will discuss the homework activity in the next lesson.....stay safe...

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