NAKHON PATHOM
RAJABHAT UNIVERSITY

Fiscal Policy

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General Concepts

- Fiscal Policy
  - Taxation, public spending, and public debt
  - Economic growth, stability, and public welfare

Warm-up

What is Fiscal Policy?

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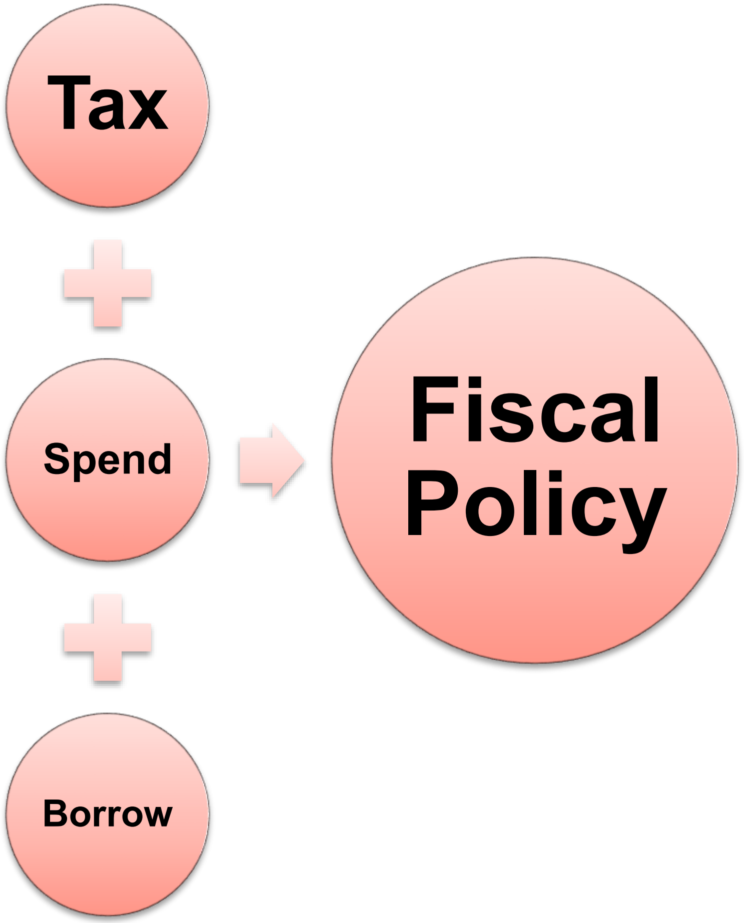
The government's use of taxation
— Coordinated with monetary policy
— To steer the economy

Economic stability and growth



General Concepts

Keynesian Economics

Economic State	Government Action	Specific Measures
Economic Slump	Deficit Policy (Stimulate),	↑ Spending or ↓ Taxes
Excessive Boom	Policy (Curb)	↓ Spending or ↑ Taxes

Monetarist View

Fiscal Policy and the Monetarist Critique

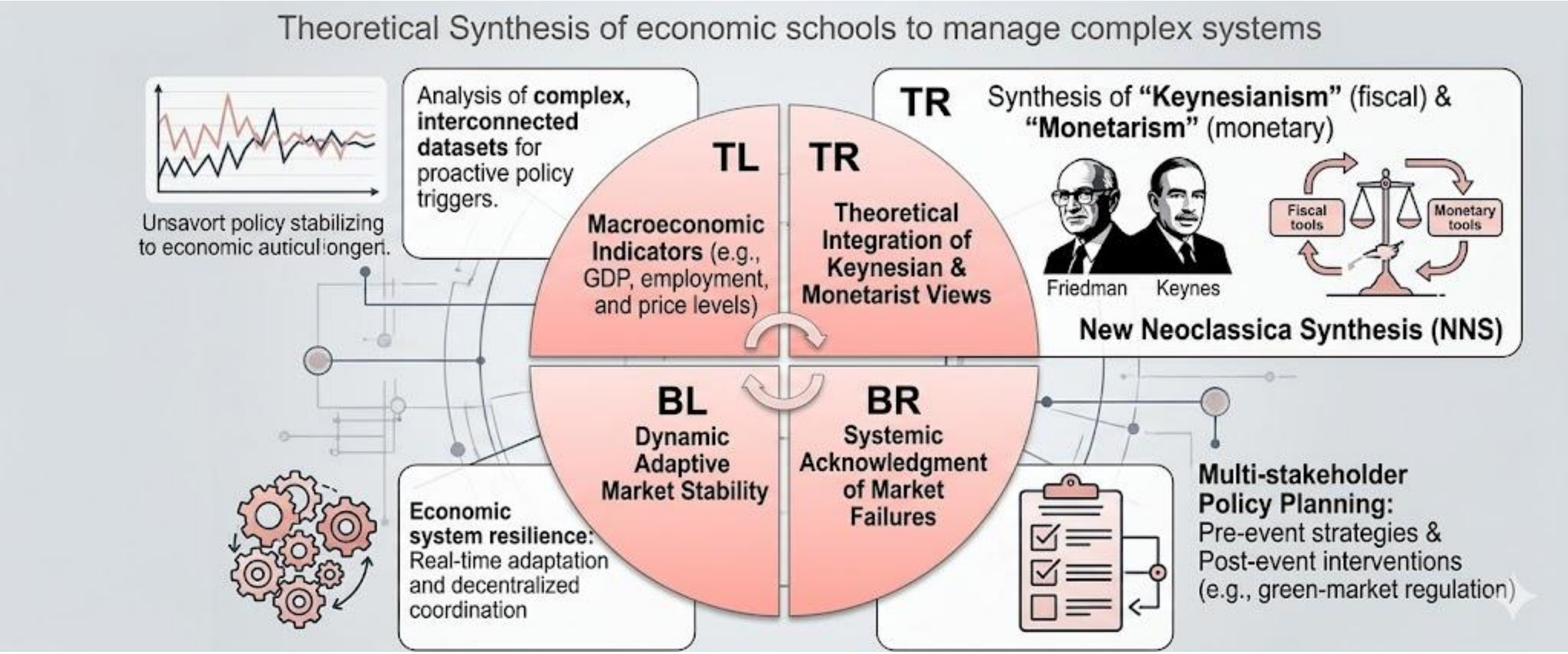
Automatic Stabilizers: Progressive taxation

Efficiency

Non-Interventionism: Monetarists advocate against active "fine-tuning" of the economy, citing three systemic risks:

- **Time Lags** (Recognition/Implementation)
- **Market Distortions**
- **Policy Ineffectiveness**

The Neoclassical Synthesis: A Balanced Economic Framework



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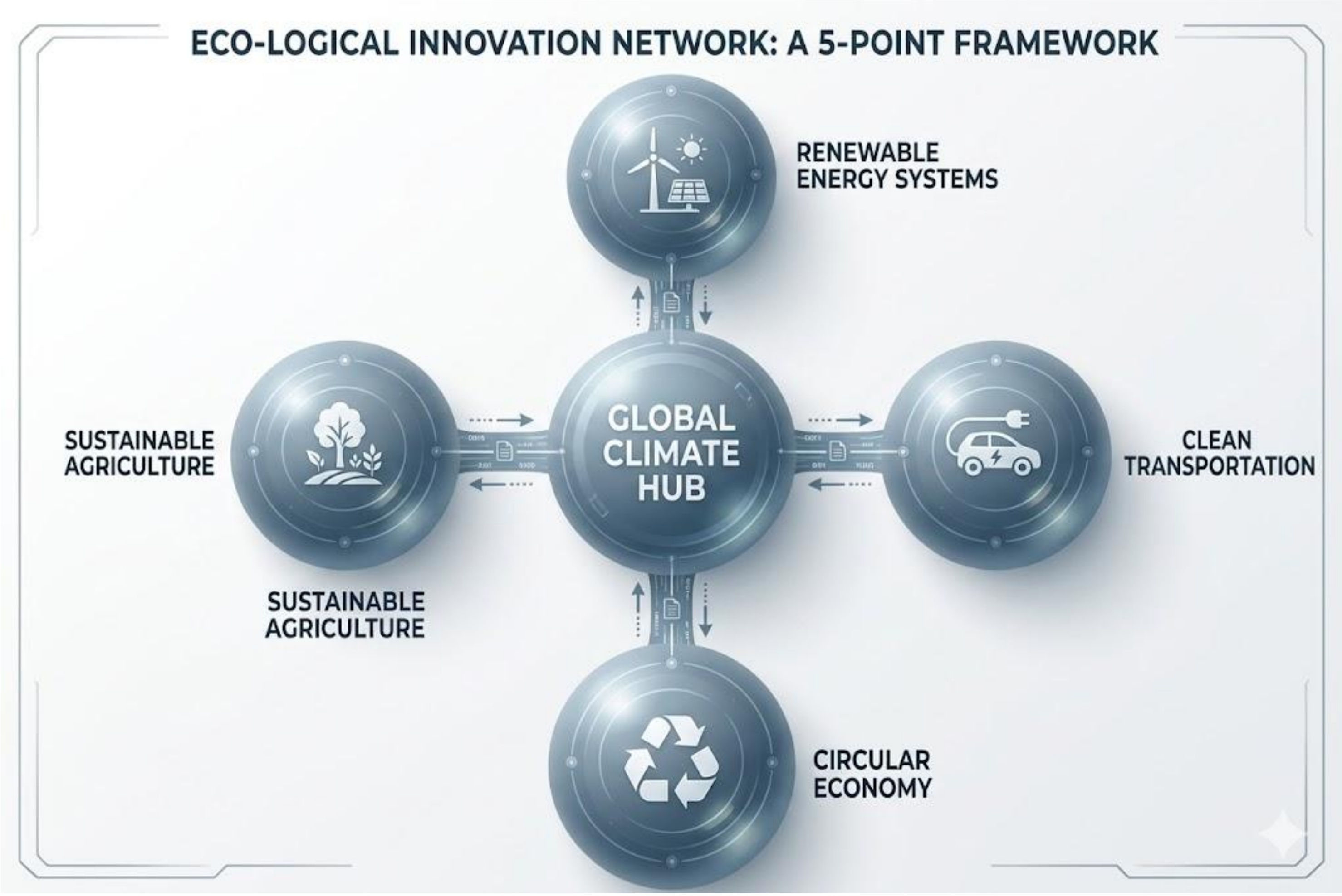
Concepts of Middle-Ground Economists (The Neoclassical Synthesis)



Fiscal policy

The tools used for maintaining stability

Fiscal policy is prone to delays during the deliberation stage,

The fiscal policy can stimulate or slow down the economy more rapidly

Concepts of Middle-Ground Economists (The Neoclassical Synthesis)

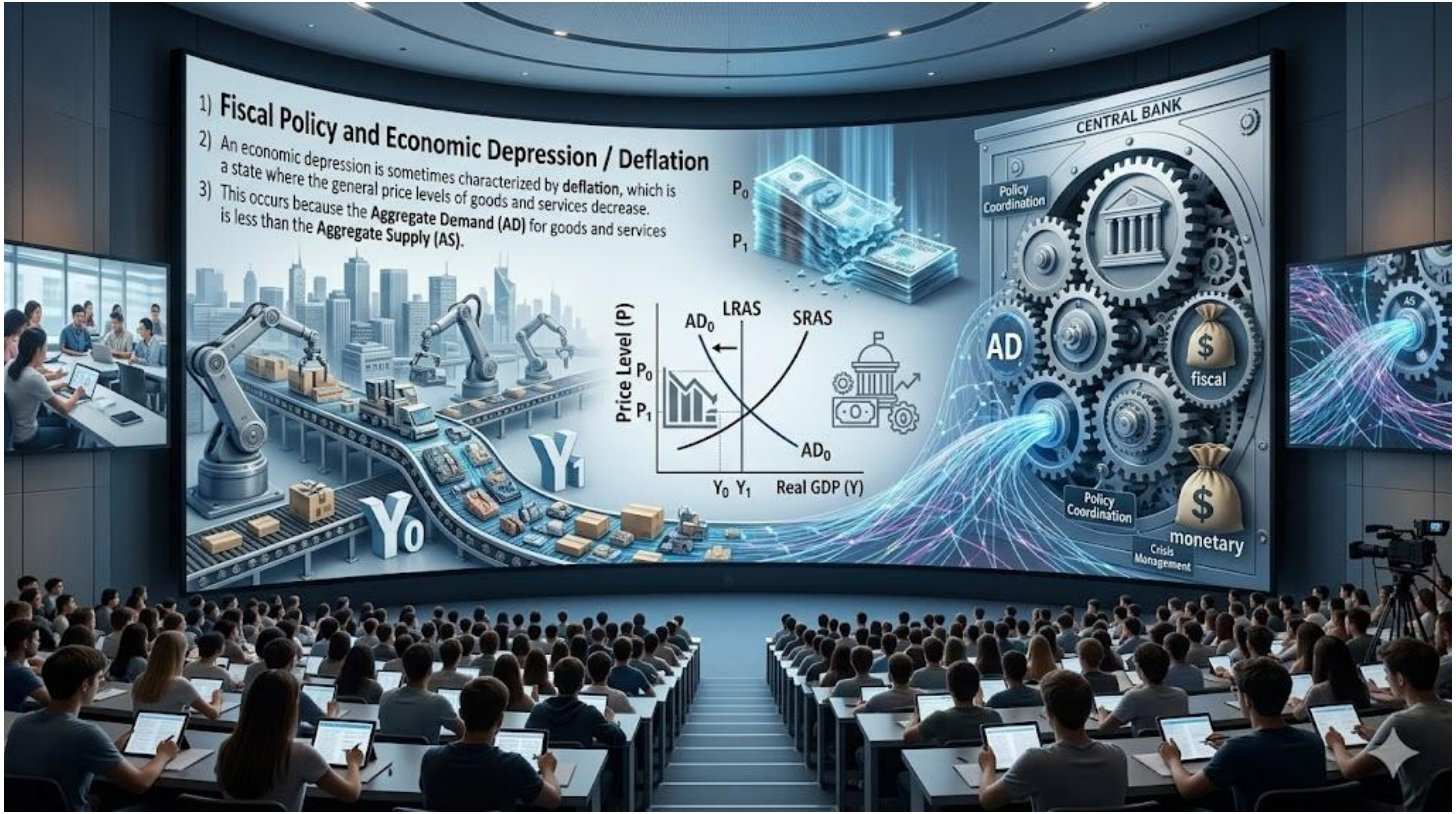
- Monetary policy,
- Greater flexibility
- Fiscal or monetary policy is more effective.
- The government should use both policies depending on the occasion of the situation.

Eckstein


In the view of Eckstein,
Fiscal Policy typically focuses on addressing short-term
(1) Government Expenditures
(2) Revenue Generation through Taxation
Fiscal Policy typically focuses on addressing short-term enx econmy changes:
FISCAL POLICY: SHORT-TERM ISSUES (Eckstein's View)
Concept based on Eckstein
(1) Government Expenditures
expenditure changes
(1) Government Expenditures
(2) Revenue Generation through Taxation
taxation changes
(2) Revenue Generation through Taxation

Fiscal Policy and Various Economic Conditions

1) **Fiscal Policy and Economic Depression / Deflation**
2) **Deflation**
3) This occurs because the **Aggregate Demand (AD)** for goods and services is less than the **Aggregate Supply (AS)**.


1) Fiscal Policy and Economic Depression / Deflation
2) An economic depression is sometimes characterized by deflation, which is a state where the general price levels of goods and services decrease.
3) This occurs because the Aggregate Demand (AD) for goods and services is less than the Aggregate Supply (AS).
Price Level (P)
Real GDP (Y)
LRAS
SRAS
AD_0
AD_0
P_0
P_1
Y_0
Y_1
CENTRAL BANK
Policy Coordination
AD
fiscal
monetary
Policy Coordination
Crisis Management

Economic Depression

-To increase **Aggregate Demand**

-To boost total spending within the economic system

Consumption (C)

Investment (I)

Government Expenditure (G)

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Fiscal Policy and Economic Depression / Deflation

Inflation

Increase in the general price levels of goods and services within an economy

- Demand-Pull Inflation
- Cost-Push Inflation

Inflation

Demand pull inflation

Fiscal measures aimed at correcting og spendingby coluumninflation

1) Reducing Government Expenditure:

- Cutting back on various government investment projects
- Essential projects

2) Increasing Taxation:

- The government may increase both direct and indirect taxes.
- Raising indirect taxes
- Indirect taxes are collected directly from the sale of goods and services.

Inflation

Cost-Push Inflation

- To a rise in the general price level
- Reduce tax rates on raw materials and equipment

Do you have any Questions?
Thank you