

## 11.3: Fiscal Policy and the Federal Budget

### Learning Objectives

- Define and give examples of fiscal policy

### Fiscal Policy

In this module we will dive into fiscal policy. Fiscal policy is one of two policy tools for managing the economy (the other is monetary policy). While monetary policy is conducted by policymakers at the Federal Reserve, fiscal policy is decided by Congress and the President.

All levels of government—federal, state, and local—have budgets that show how much revenue the government expects to receive in taxes and other income and how the government plans to spend it. Indeed, examining government budgets are a quick way to get a sense of the role of government in the economy. Budgets, however, can shift dramatically within a few years, as policy decisions and unexpected events shake up earlier tax and spending plans.

The discussion of fiscal policy focuses on how federal government taxing and spending affects aggregate demand. All government spending and taxes affect the economy, but fiscal policy focuses strictly on the policies of the federal government. We will begin with an overview of U.S. government spending and taxes. Then we'll discuss fiscal policy from a short-run perspective; that is, how government uses tax and spending policies to address recession, unemployment, and inflation; how periods of recession and growth affect government budgets; and the merits of balanced budget proposals.

### Watch It

Watch this video for an explanation of fiscal policy. This provides an overview on ways that fiscal policies are implemented, which we will examine in more detail later in the module.

A link to an interactive elements can be found at the bottom of this page.

### Try It

<https://assessments.lumenlearning.co...essments/7580>

### Learning Objectives

[glossary-page][glossary-term]fiscal policy:[/glossary-term]  
[glossary-definition]changes in Federal government spending or tax rates for the purpose of influencing the macroeconomy.[/glossary-definition]  
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