Fiscal Policy

Fiscal policy is a **macroeconomic policy** tool that involves the **government's manipulation of the level, composition, and allocation of its taxation revenue and expenditure.** It is primarily used to **influence the national aggregate demand** for goods and services.

Key Goals of Fiscal Policy:	• Influence the market allocation of resources (*reallocation* role).
	• Influence the market distribution of income (*redistribution* role).
	• Manage aggregate expenditure (also known as the market stabilisation role), which directly impacts aggregate demand.

Short-run (demand side) management policy, aimed at reducing the severity of swings in economic activity caused by the economic cycle. It helps promote a stable economic environment for consumers and producers to make confident decisions about resource allocation.

The Visible Hand

If Economic Cycle gets into a downturn or bust the central bank (RBA) can make changes to correct or fix the economic cycle.

The Government Sector

The Government Sector (cont)

3. Regressive tax: a tax system in which the ratio of tax is lower with higher incomes than with smaller incomes.

Indirect Taxation: any tax on aspects of economic activity other than income. For example, the Goods and Services Tax (GST), carbon tax. These can be passed on to other by the firm on which the tax is levied.	**Direct Taxation:** any tax that is borne by the person or firm on who it is levied. For example income tax and company tax.
	Types of Direct taxation:
	1. Progressive Tax: a tax system in which the percentage of tax payable increases as incomes rise.
	2. Proportional Tax (flat rate tax): a tax system in which all pay a constant rate of taxation regardless of income level.