## AD = C + I + G + (X-M)

## Government spending

**Starter**: In 2012/2013 the government plans to spend £688bn on public services. Make a list of all the different things that the UK Government spends money on e.g. defence

**Extension activity**: where do you think the money to pay for these public services comes from (be specific)?

Write your answer here.

What are the 4 largest categories of Government spending? And which taxes make up biggest source of tax revenue?

|  |  |
| --- | --- |
| Government spending on Public services | Types of taxation |
| Your guess  1.  2.  3.  4.  Correct answer  1.  2.  3.  4. | Your guess  1.  2.  3.  4.  Correct answer  1.  2.  3.  4. |

**BUDGET deficit/surplus**

What is a budget deficit? ……………………………………………………………………………………………………………………………………………

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What is a Budget surplus? ………………………………………………………………………………………………………………………………………….

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**National Debt**

The sum total of all past debt accumulated by the UK government. It has tended over the long run to rise sharply during times of war.

**Fiscal Policy**

The manipulation of **TAXES, GOVERNMENT SPENDING AND BORROWING** to influence Macroeconomic objectives through the level and growth of aggregate demand, output and employment

**Expansionary Fiscal Policy**:

**Contractionary Fiscal Policy**:

**Activity 1**

The government has announced the following changes to Government spending and Taxation. Explain and illustrate how these will impact on AD

1. David Cameron’s government decides to increase spending on the NHS in the UK by 5%.
2. Councils in the UK are being forced to cut spending on the police force by 2% in 2013.
3. The government is to give plane manufacturer Airbus up to £340m in loans for new project.
4. Dumfries and Galloway authority are proposing to cut the education budget by £3mresulting in 105 staff posts cut - including more than 70 teaching positions.
5. The government decides to increase VAT from 17.5% to 20%

Extension activity:

1. The Government decides to build 20 new schools at a cost of £200m.

1. List as many different types of people/firms that would receive an income from this action.
2. Use a diagram to show the effect of this increased spending on an AD curve.

Plenary:

On note paper, write a multiple choice question with 4 possible answers (only 1 of which is correct).

Test your neighbour!