4.5.3 Public sector finances

a) *Distinction between automatic stabilisers and discretionary fIscal policy*
b) *Distinction between a fiscal deficit and the national debt*
c) *Distinction between structural and cyclical deficits*
d) *Factors influencing the size of fiscal deficits*
e) *Factors influencing the size of national debts*
f) *The significance of the size of fiscal deficits and national debts*

- Automatic stabilisers: fiscal policy which automatically reacts to changes in the economic cycle. During a recession, government spending will increase because the government will pay out more benefits and they will receive less tax revenue from unemployment
- Discretionary policy: when the government deliberately change their level of spending and tax
- Fiscal deficit: where government spending is more than tax revenue
- National debt: the accumulation of total government borrowing which the total of all budget deficits
- Factors influencing the size of fiscal deficits:
  - Interest payments
  - The business cycle
  - Priorities of government
- Factors influencing the size of national debt:
  - The size of fiscal deficits
  - Rate of interest
  - Inflation rate
- Impacts of a fiscal deficit:
  - Confidence in the government may falter so interest rates would rise
  - High national debt could lead to higher taxes and austerity measures
  - Risk of demand-pull inflation
  - Many be a crowding out effect: when increasing public sector spending drives down private sector spending