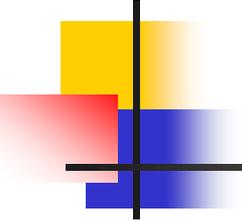


Economics and Public Finance

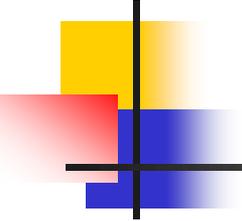
Tutorial 10

- Topics:
- Objectives, instruments and indicators of Fiscal Policy
- Discretionary fiscal policy
- Automatic stabilizers
- Total, primary, structural balance



Readings

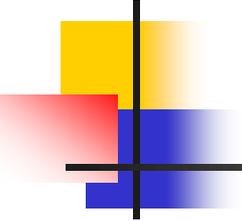
- Lecture 19.
- Glossary of Public Finance terms.



Multiple Choice Questions - 1

Which of the following fiscal variables is not associated with discretionary government policy:

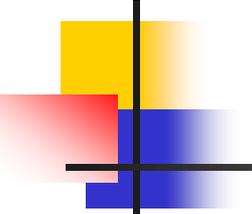
- a. Progressive rates of personal income tax.
- b. Unemployment benefits.
- c. Interests on government debt.
- d. Compensation of employees.



Multiple Choice Questions - 2

Say which of the following taxes/social benefits is an automatic stabilizer:

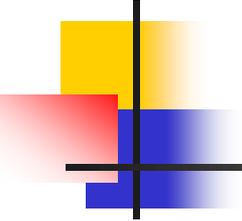
- a. Progressive personal income tax (IRS).
- b. Health insurance benefits.
- c. Pensions.
- d. Tobacco tax.



Multiple Choice Questions - 3

A discretionary fiscal policy is said to be generally pro-cyclical when the cyclically adjusted primary balance:

- a) Changes in the same direction as the growth rate of real GDP.
- b) Changes in the opposite direction to the growth rate of real GDP.
- c) Changes in the same direction as the growth rate of nominal GDP.
- d) Changes in the opposite direction to the growth rate of nominal GDP.

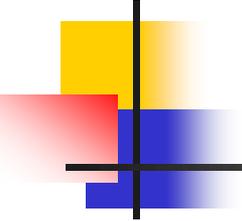


Topics for Discussion - 1

Different concepts of budget balances enable to assess the stance (nature) of stabilizing fiscal policy.

- a. Clarify the concepts of overall balance and structural (adjusted for the cycle) balance and the importance of considering both for that assessment.

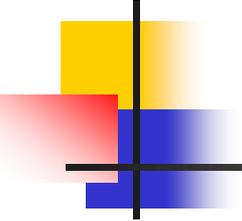
- b. Explain how a possible downward trend in the total budget deficit, to reach an equilibrium, can conflict with certain objectives of fiscal policy.



Topics for Discussion - 2

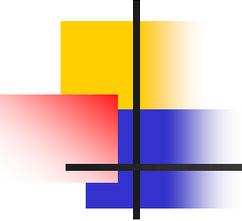
Distinguish, exemplifying, "active stabilization policy" and "effect of automatic stabilizers."

Give two examples of how automatic stabilizers work in an economic recession.



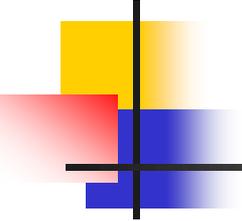
Topics for Discussion - 3

Consider that the government, in order to tackle an excessive deficit, decides to decrease the compensation of employees in the General Government by 15%. What impact would such a measure have on the budget deficit and on economic growth?



Exercise (1/4)

- a) With the data from the 2009 SGP (slide 10), calculate the interests and the cyclically adjusted budget balance (% of GDP) for the period 2008-2011, clarifying the calculation process.
- b) Compare the values of the general government balance and interest payments in 2009 (2009 SGP), 2010 (2010 SGP) and 2011 (2011 EDP) (slides 10, 11, 12). What can be concluded?
- c) Calculate the primary balance, the structural balance and the cyclically adjusted primary in 2011 (slide 12). What can you conclude about the expected path of the economy and public finances in Portugal in this period?



Exercise (2/4)

Stability and Growth Programme, Portugal, 2009

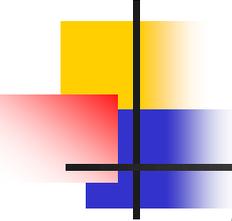
	2008	2009	2010	2011
Budget Balance (% of GDP)	-15	-2.25	-3	-3.75
Cyclical Component of the Budget Balance (% of GDP)	0	-0.25	-0.5	-0.75
Cyclically adjusted primary balance (% GDP)of	0.68	0.4	0.16	-0.04
Efective total spending of Public Administrations (% of GDP)	45.1	46.0	47.0	48.0
GDP (real growth rate)	1.0	1.5	1.75	2.0
Output Gap (% of potential GDP)	0	-0.5	-1.0	-1.5

Exercise (3/4)

SGP, 2010, Portugal

% of GDP	2008	2009	2010	2011	2012	2013
Budget Balance	-2.7	-9.3	-8.3	-6.6	-4.6	-2.8
Cyclical component of the budget	0.1	-1.2	-1.1	-1	-0.8	-0.5
Cyclically adjusted budget balance	-2.8	-8.1	-7.2	-5.6	-3.8	-2.3
Interests payments	2.9	2.9	3.2	3.8	4.1	4.1
Primary Balance	0.2	-6.4	-5.1	-2.8	-0.5	1.3
Ciclycally adjusted primary balance	0.1	-5.2	-4.0	-1.8	0.3	1.8
Total Expenditure	45.9	49.1	48.8	47.7	46.5	45.4
Public Administration Gross Debt	66.3	77.2	86.0	89.4	90.7	89.8
GDP (real variation, %)	0	-2.7	0.7	0.9	1.3	1.7
Ouput Gap (% of ptotential GDP)	0.3	-2.5	-2.4	-2.2	-1.9	-1.1
GDP Deflator(taxa de variação, %)	2.1	1.0	0.8	2.0	2.0	2.0

Source: SGP 2010-2013, 15 March 2010.



Exercise (4/4)

EDP, 2011, Portugal. Source: Statistics Portugal.

	2008	2009	2010	2011
GDP (nominal change, %)	1.6	-2.0	2.3	0.5
Total budget balance of Public Administrations (% of GDP)	-3.5	-10.0	-8.6	-4.6
Interest payments (% of GDP)	2.9	2.9	3.2	3.8
Output gap	0.3	-2.5	-2.4	-2.2
Cyclical component of the budget balance (% of GDP)	0.1	-1.2	-1.1	-1.0