

Application Exercise title : Fiscal policy and macroeconomic indicators

The economy of your country has recently come out of a recession. The country has seen a decrease in unemployment from 9% last year to 7% this year. The goal of unemployment is 5%. At the same time, real GDP growth was 1.5% last year and 2.3% this year. This year consumption has only grown by 1% and investment has remained stable. The country has had a trade deficit over the past years. Inflation has increased from 1% last year to 1.8% this year. In order to come out of the recession the government has increased spending over the past years which resulted in an increase in its national debt.

In order to improve economic outcomes, which of the following policies should be adopted by your government? In choosing a policy, identify your goals for each economic statistic listed above.

- A) Expansionary fiscal policy
- B) Contractionary fiscal policy
- C) Allow the economy to self-adjust