

GOVERNMENT IN ACTION



Multiple choice

1. B
2. C
3. C
4. C
5. A

Matching terms

The estimated revenue and spending of a government for the next financial year.	Federal budget
That section of the budget determined by particular government decisions to raise or lower expenditure.	Structural component
That section of the budget greatly influenced by changes in the level of economic activity.	Cyclical component
Budget estimate where government revenue equals spending.	Balanced budget
Budget estimate where government revenue exceeds spending.	Budget surplus
Budget estimate where government spending exceeds revenue.	Budget deficit
An unexpected shortfall in revenue and/or unanticipated spending, leading to a significantly larger deficit (or smaller surplus) than was projected at budget time.	Budget blowout
A policy change which occurs between annual Budgets and results in changes to estimated revenue and spending.	Mini-budget

True or false

- | | |
|------|-------|
| 1. T | 6. T |
| 2. F | 7. T |
| 3. F | 8. T |
| 4. F | 9. T |
| 5. T | 10. T |

Short answers

Question 1

- As economic growth increases, so will the income tax revenue from the increased incomes of the workforce. This is cyclical.
- An increase in the rate of the GST will increase government revenue. This is a decision independent of the rate of economic growth and hence is structural.
- An increase in unemployment benefits paid out as economic growth falls will be a cyclical component.
- A decision to double expenditure on environmental programs and protection measures will be a structural effect.

Question 2

Fiscal policy is the use of changes in government expenditure and revenue to meet specific economic aims. Should the government wish to expand the economy it will increase spending measures and/or reduce revenues. This is called an expansionary stance. It will increase consumer demand, by increasing money supply. This will, hopefully, reduce the rate of unemployment as firms employ more staff to allow them to expand supply. However, the rate of inflation may increase due to the increased demand for goods.

Question 3

- Pressure from many environmental groups and individuals has resulted in the NSW government taking control of all proposed developments at any point along the NSW coastline to prevent over-development.
- Environmental groups in Sydney have successfully delayed the construction of a second nuclear reactor at Lucas Heights, over concerns for leakage of radioactive materials into the surrounding environment.

Question 4

The government must take into account a range of international factors:

- If its budget is not consistent with the wishes of international investors, the value of the Australian dollar may fall.
- Australia is a member of many international organisations (such as the IMF, WTO and APEC) and must follow their decisions on issues.
- The government participates in many treaties and negotiations (eg Kyoto) and so must meet their terms.
- The rates of economic growth in other parts of the world will effect the growth of the Australian economy, requiring the government to change its economic policies.

Question 5

ACOSS (the Australian Council of Social Security) has effected the nature of the GST, by convincing the government to develop a relief package for low-income earners. This package included lower income tax rates, increased payments and indexation of welfare payments. Additionally, ACOSS has been allowed to participate in the Living Wage Case in front of the AIRC, which determines changes in award wage rates each year.