Name of Student

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Due Date

**Question 1**

a] The impact of a change in government will significantly impact the economy compared to nominal changes. The change in government expenditure will first cause a change in multiplier, so we first calculate the fiscal multiplier.

The multiplier is

1/ [1-MPC]

1/ [1-0.75]

1/0.25= 4

This implies that for every single dollar the government spends, it will result in GDP changes by 4 times.

If the government expenditure increases by $70, then GDP will increase by 4\*$70=$280

The equilibrium in income will increase by $280, which is caused by an increase in demand as excess spending by the government will circulate in the economy.

d] A decrease in taxes means that more currency will be available to the public. The net effect will be $70\*4 =$280; hence the effect will be the same as above, and as demand increases, GDP will increase.

**Question 2**

Fiscal policy involves changes in government policies to influence the economy. The government can utilize two mechanisms which include changes in taxation and changing government spending.

For recession gaps, the government can decrease taxes or increase its spending to increase money circulation.

Inflationary gaps mean that demand exceeds production in a given country caused by changes in many factors such as employment levels and trade. The government can reduce spending or increase taxes to reduce money circulation in the economy. Increasing interest rates on taxes means households will receive fewer funds for their investments, hence a decline in the economy's transfer payments.

**Question 3**

Countries face numerous challenges in efforts to revive their economies using fiscal policies. Adjusting the balances in the gross domestic product of countries is a challenge in many countries, with individual country characteristics playing a key influence for each country.

Vulnerability of fiscal policies

Fiscal policies in many countries are highly reliant on market sentiments and how they change economic dynamism. The instability in economies can cause significant inconsistency in growth-limiting the government's ability to change financial performance (RAUF, KHAN, and KHAN, 2021). As growth declines in the economy, the power of expansionary fiscal policies can easily get eroded, causing them ineffective. Government acquires money to use through taxation and borrowing, and in case its experiencing challenges, the levels of control are limited. The government's involvement in different activities can involve serious risks in financial markets, causing an increase in credit risks.

Impact of fiscal policies on developing economies

Countries are interrelated, and the actions of developed economies cause significant impacts on developing economies. These challenges cause fiscal sustainability's causing complications in economic operations. This effect can easily cause falling economic balances with a significant influence on interest rates. As prices change, prices of goods can easily change, affecting currencies in developing countries which will significantly lead to a decline in demand. As demand reduces, the countries may suffer from an increase in public debts

Changes caused by government spending can cause significant challenges in levels of unemployment. As government reduces spending, there would be a substantial decline in investment, causing a significant loss in jobs (Adediyan and Ikirodah, 2021). As people lose employment, they tend to spend less due to a decline in household incomes, causing a reduction in demand for goods and services. As demand decreases, the living standards tend to fall. Incase of expansionary policies, there is an increase in investment, causing the crowding effect challenge. Expansionary fiscal policies tend to be ineffective in the long run.

**Question 4**

The national debt has remained a subject of the national debate over the years on how well the USA can sustain its debt ratio while maintaining economic sustainability. The government has over the years injected more funds into the economy; however, the information available to the general public on the debt ratio is still limited. The national debt has been a big concern for the general public as they tend to understand how household incomes and daily life are bound to change as debt levels change (Onyele and Nwadike, 2021). Based on government spending, the national debt is rising since government expenditure is above government revenue. Currently, the US national debt is 28.1 trillion

The American government uses different methods to finance its debts, with the majority of financing occurring in bond and treasury bills financing. The American currency remains a strong currency across the world. The state remains in good shape in the world market; hence the stability of the economy is in the right direction.

The American economy has remained stable over the last ten years and is still ranked as the highest growing economy in the world. Despite the current global crisis, the American economy has recovered and has begun growing again as the countries have a high economic growth rate. The American government has, over the years, utilized different fiscal policies to sustain growth and economic stability. The government has increased spending in key sectors while making inflation rates low, causing a significant improvement in employment and living standards. Stable prices of goods have increased demand, causing increased household consumption hence creating a self-generating economy. Economic stability is high and is bound to stabilize the US economic policy.

A strong currency has maintained the economy at a comparative advantage in international trade. As the country trades with other countries, its goods value is still reputable hence significant improvement in exports and GDP levels (Anjum, 2021). The increase in net exports has maintained American debt at a sustainable state. With the increase in economic growth and employment rates, an increase in production and demand is expected to spur the economy, leading to economic growth and development. Even though the impact of increasing debt on households cannot be ignored as interest rates on borrowing and investments are bound to increase. The rate of economic growth is faster compared to the change in national debt hence the long-term economic stability is under control and does not need to worry American citizens.

**References**

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