

Discretionary and Automatic Fiscal Policy

Listed below are several economic scenarios. For each scenario, indicate whether it represents an automatic (A) or discretionary (D) stabilizer and whether it is an example of expansionary (E) or contractionary (C) fiscal policy. A sample has been completed for you.

Economic Scenarios	Automatic (A) or Discretionary (D)	Expansionary (E) or Contractionary (C)
<i>Sample:</i> Recession raises amount of unemployment compensation.	A	E
1. The government cuts personal income-tax rates.	D	E
2. The government eliminates favorable tax treatment on long-term capital gains.	D	C
3. Incomes rise; as a result, people pay a larger fraction of their income in taxes.	A	C
4. As a result of a recession, more families qualify for food stamps and welfare benefits.	A	E
5. The government eliminates the deductibility of interest expense for tax purposes.	D	C
6. The government launches a major new space program to explore Mars.	D	E
7. The government raises Social Security taxes.	D	C
8. Corporate profits increase; as a result, government collects more corporate income taxes.	A	C
9. The government raises corporate income tax rates.	D	C
10. The government gives all its employees a large pay raise.	D	E