

Nature of the Budget

Revenue

- Taxation Revenue
 - Taxes on income and profits
 - Taxes on properties
 - Taxes on goods and services
 - Import duties
- Non-tax Revenue
 - Government departments
 - Post Offices
 - Property income
 - State-owned corporations

Expenditure

- Current Expenditure
 - Wages and salaries
 - Goods and services
 - Interest Payments
 - Transfers and subsidies
- Capital Expenditure
 - Investments
 - Property Acquisitions

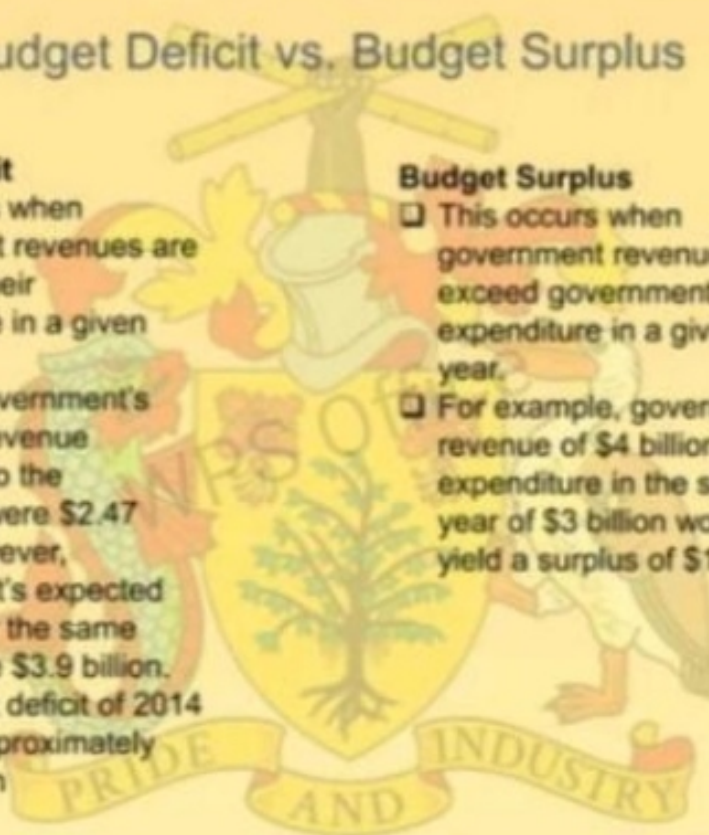
Budget Deficit vs. Budget Surplus

Budget Deficit

- ❑ This occurs when government revenues are less than their expenditure in a given year.
- ❑ In 2014, government's expected revenue according to the estimates were \$2.47 billion. However, government's expected revenue for the same period were \$3.9 billion. The budget deficit of 2014 stood at approximately \$1.43 billion

Budget Surplus

- ❑ This occurs when government revenues exceed government expenditure in a given year.
- ❑ For example, government revenue of \$4 billion and expenditure in the same year of \$3 billion would yield a surplus of \$1 billion.



Balanced Budget

$$\text{Budget} = T - G$$

Government may also achieve a balanced budget where government revenue equal government expenditure.

Balanced Budget Multiplier

An equal increase in government taxes and expenditure result in a net increase in Gross Domestic Product. This concept is known as the balanced budget multiplier.

Balanced Budget Multiplier

Increase in Taxes

- ❑ An increase in taxes reduce disposable income which lower consumption.
- ❑ However, it will also lower savings.
- ❑ The increase in tax is shared between consumption and savings.
- ❑ Consumption will fall by the marginal propensity to consume by the change in tax.
- ❑ Savings will decrease by the marginal propensity to save by the change in tax

Increase in Government Purchases

- ❑ Government purchases is a component of GDP.
- ❑ Any increase in government purchases directly increases GDP.
- ❑ This explains why an equal increase in government purchases and taxes will have a net increase on GDP.

Weaker

Balanced Budget Multiplier = 1

Change in Gross
Domestic Product

= 1

Change in Government
Purchases

This means, an increase in government purchases that is fully financed by taxes will increase Gross Domestic Product by the same amount as the increase in government purchases

PRIDE AND INDUSTRY

Example Continued

Balanced Budget Multiplier

Now assume an increase in government purchases of \$50m is financed entirely by taxes. This means, there is an equal increase in government purchases and taxes of \$50m.

$$\text{Consumption} = \$150\text{M} + 0.75(Y - T)$$

$$\text{Investment} = \$50\text{m}$$

$$\text{Government Purchases} = \$250\text{m}$$

$$\text{Taxes} = \$150\text{m}$$

$$Y = AE$$

$$Y = \$150\text{m} + 0.75(Y - \$150\text{m}) + \$50\text{m} + \$250\text{m}$$

$$Y = \$150\text{m} + 0.75Y - \$112.50\text{m} + \$50\text{m} + \$250\text{m}$$

$$Y - 0.75Y = \$150\text{m} - \$112.50\text{m} + \$50\text{m} + \$250\text{m}$$

$$0.25Y = \$337.50\text{m}$$

$$Y = \$337.50\text{m}/0.25 = \$1350\text{m}$$

Balanced Budget Multiplier = 1



STEP

by

STEP

Consumption = $\$150M + 0.75(Y - T)$

Investment = $\$50m$

Government Purchases = $\$250m$

Taxes = $\$100m$

$Y = E$

$$Y = 150M + 0.75(Y - 100) + 50M + 250M$$

$$Y = 150M + 0.75Y - 75 + 50M + 250M$$

$$Y - 0.75Y = 375M$$

$$0.25Y = 375M$$

$$Y = 1500M$$

GDP
increases
by
 $\$200M$

STEP

by

STEP

Consumption = $\$150M + 0.75(Y - T)$

Investment = $\$50m$

Government Purchases = $\$200m$

Taxes = $\$150m$

RECALL

↑ T ↓ GDP

$Y = AE$

$$Y = \$150M + 0.75(Y - 150) + 50M + 200M$$

$$Y = \$150M + 0.75Y - \$112.5M + 50M + 200M$$

$$Y - 0.75Y = \$287.5M$$

$$0.25Y = \$287.5M$$

$$Y = \$1150M$$

GDP
decrease
s by
 $\$150M$

THANKS YOU

