

# World Economy

## Tri-sector economy analysis – public budgets and taxes as an instrument of fiscal policy

# Tri-sector economy

**Aggregate demand (AD)** is consist of:

- Household consumption (**C**),
- Firm investment (**I**),
- Government spending (**G**), includes of government purchases of goods and services and established taxes and transfers.

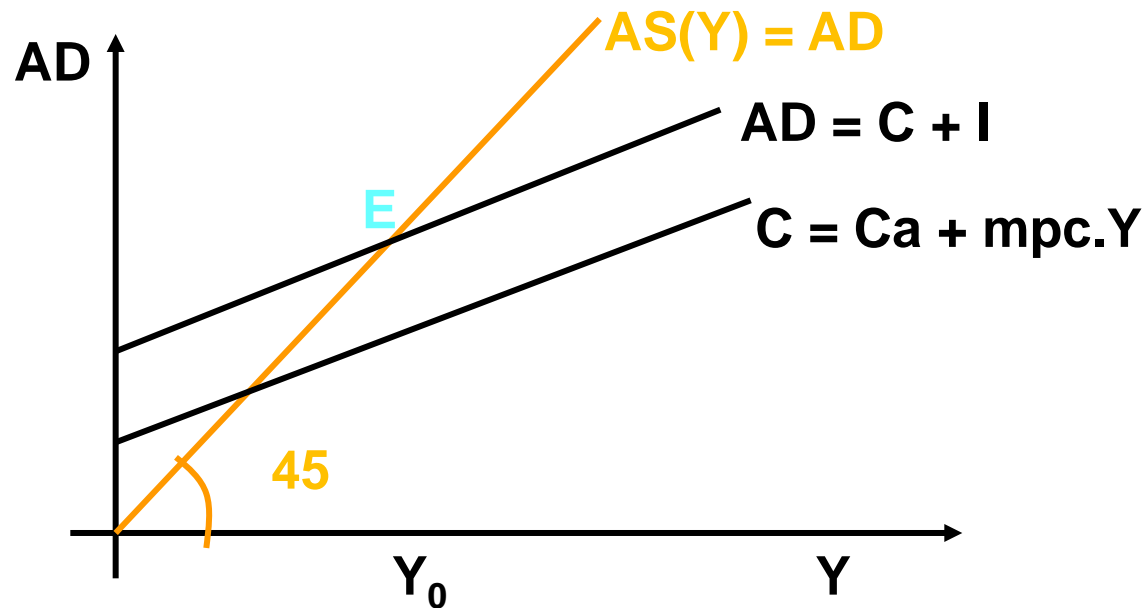
$$AD = C + I + G$$

# Disposable income

**Disposable income** (YD) = is income of an individual sector, that is used for consumption (C) and savings. (S)

$$YD = Y - TA_T + TR$$

# The equilibrium output in the Tri-sector economy



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# Fiscal policy

Budget economic policy; instrument is the state budget.

It uses **revenue and expenditure** side of the SB to reach the targets of the economy. i.e. to influence unemployment rate and total price level.

# Targets of the FP:

- To keep an economic growth and high employment,
- To keep a price stability,
- To damp fluctuation in the economic cycle.

# Instruments of the FP:

- Automatic stabilizers
- Discretionary measures

# Two basic instruments of the fiscal economy:

- Government purchases of goods and services
- Net taxes

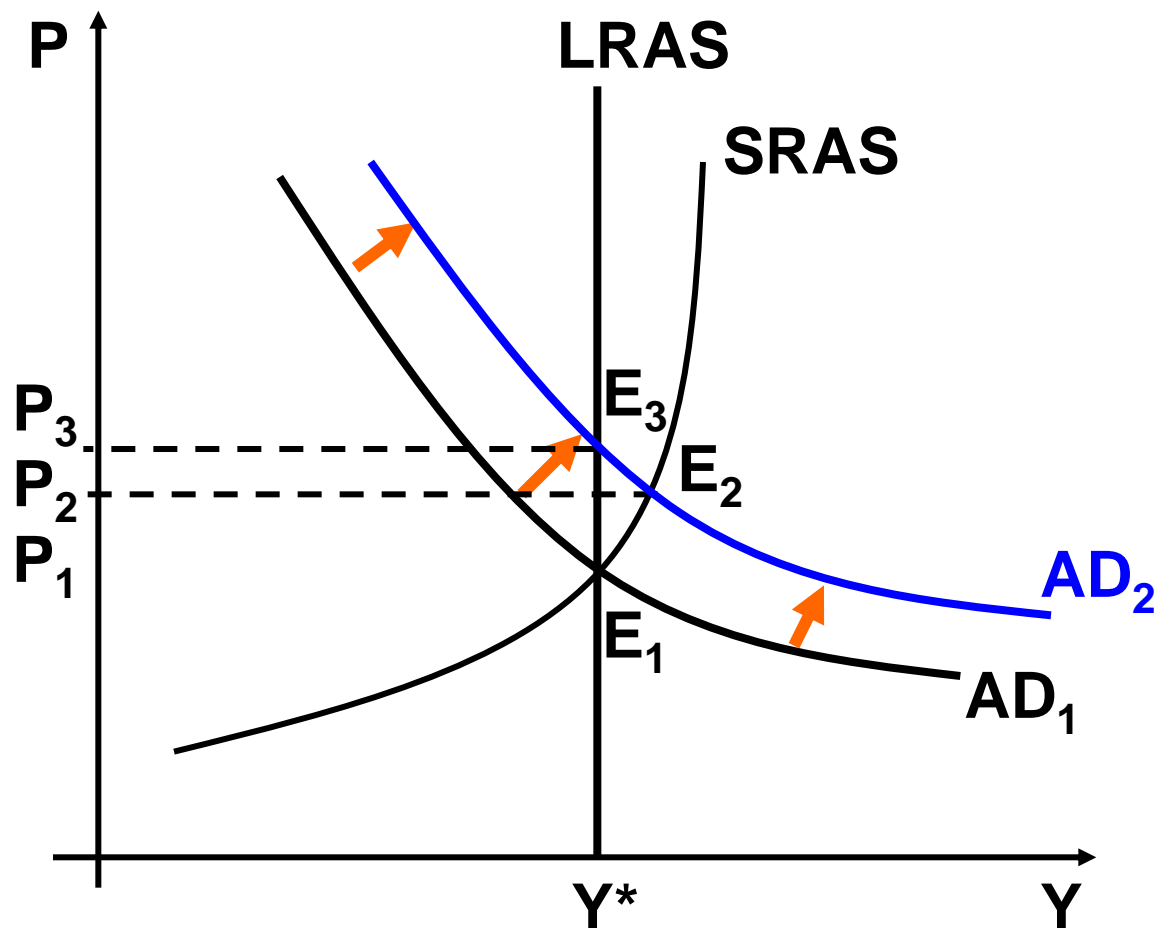
# The effects of expansive and restrictive fiscal policy

- **Increase (decrease) in government spending**— fiscal expansion (restrictions) influences to a demand side of the economy, when G increases the AD curve shifts right and up, when G decreases the AD curve shifts left and down.
- **change in tax rate may have an impact on aggregate demand** and also aggregate supply (AS has time delay)
  - Tax cuts (permanent) shifts curve the SRAS and the LRAS to the right and shifts also the AD to the right, tax increase causes opposite shift curves, the total price level may increase, decrease or remain constant
  - successful tax reform (reducing the tax burden): shift the AD to the right and shift the SRAS and the LRAS to the right, effect is an increase in power at the stable total price level
  - Laffer Curve (Supply-side economy)
  - + tax havens importance



- the effect of expansionary fiscal policy depends of choice of instrument and, where is the power of an economy (under the level  $Y^*$ , or on the level  $Y^*$ )
- Is also important to distinguish the effect of fical policy in the short-run or long-run
- **crowding out“ effect of crowding**: decline in private autonomous (mainly investment) expenditures due to rising interest rate
- Market connection with the others markets!
- + problem of conformance objectives of economic policy (fiscal, monetary, income, foreign trade and monetary)

# Expansionary fiscal policy during the full use of resources + complete crowding out effect



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# Public budget

Public budget includes:

- State budget,
- Local budgets (municipalities and regions).

Fiscal deficit: real, structural, cyclic, cyclic balanced

## State Funds of the CR

- Land Fund(1991)
- State Environmental Fund (1991)
- State Cultural fund of the CR (1992)
- State Fund of the CR for Reconstruction and Development of Czech Cinematography (1992)
- State Agricultural Intervention Fund (2000)
- State Fund for Transport Infrastructure(2000)
- State Fund for Housing Development (2000)

## Public budgets:

1. State budget of the CR
2. Budgets of local government units (regions)
3. Budgets of main local government units (municipality)
4. Finance state enterprises
5. State Funds of the CR

# Indirect taxes

- Are imposed on goods and services, indirectly affect consumers, reflects in prices
- Value added tax
- Sales tax
- Fiscal monopoly tax
- Duties
- Social security payments, state employment policy, health insurance etc.

# State Budget

It is a central element of public finances and centralized monetary fund, that is created, divided and used by central state authorities.

- balanced, surplus, deficit

## Function:

- stabilization
- allocation
- redistribution

# State budget

## Revenues of the state budget

- **Taxes**  
(direct, indirect)
- Duties
- **Social insurance**  
(pension, sickness and health, contributions to the state employment policy,
- Revenues from earlier loans
- Revenues from the sale of state assets
- Received subsidies
- Other revenues

## Expenditures of the state budget

- **Trasfers to households**  
(incomes, unemployment benefits, social benefits)
- Subsidies to enterprises
- **Current and capital expenditure of each chapter**
- (transport, education, the military, police)
- Subsidies
- Interest on the national debt
- Other expenditures

# Taxes

Taxes (direct, indirect) are the main item of the state budget revenues.

It is an obligatory payment, that must be paid by individual subjects to SB in predetermined intervals and amounts.



# Direct taxes

- Personal income tax
  - Tax from company profits
- Property tax, real estate transfer tax, inheritance tax, gift tax etc.

# State budget development in 2013

		janurary	february	march	april	may	june
State budget evenues	bil. CZK	125,02	196,61	292,87	373,24	441,89	549,91
State budget expenditures	bil. CZK	82,60	191,03	278,90	389,78	481,67	581,52
State budget balance	bil. CZK	+42,42	+5,58	+13,97	-16,54	-39,78	-31,52

Source: <http://www.finance.cz/makrodata-eu/statni-rozpocet/statistiky/prijmy-vydaje/>

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