

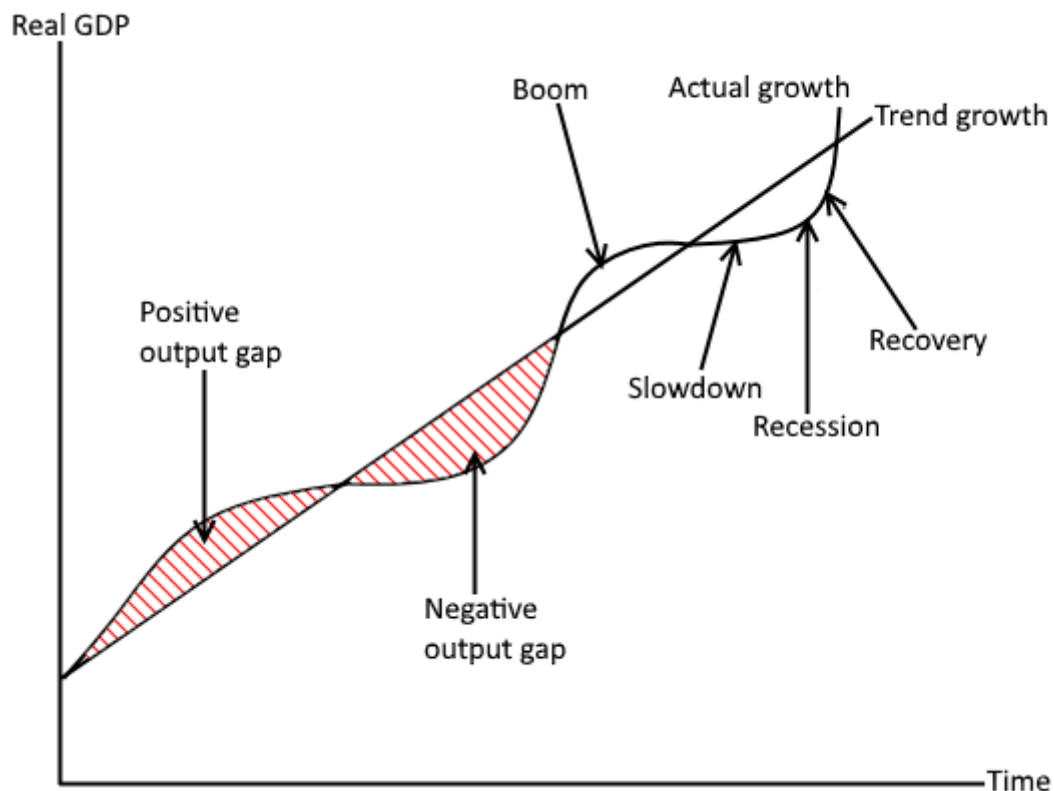
# **2.2.4 Government Expenditure**

## **Government Expenditure Overview**

- Government expenditure is spending by the public sector on goods and services such as health, education and defence
- The biggest portions of government spending go to Social Protection followed by Healthcare followed by Education
- Government expenditure makes up about half of GDP (think back to expenditure method of measuring GDP)

## **The Trade Cycle as an Influence on Government Expenditure**

- There are fluctuations in RGDP throughout the trade cycle



- Government expenditure tends to increase during a recession as payments to welfare tend to increase due to increased unemployment
- Government expenditure decreases during a boom as there is increased employment resulting in less spending on low-income and out-of-work benefits

## **Fiscal Policy as an Influence on Government Expenditure**

- Government may intentionally change total spending in the economy by changing their own expenditure (discretionary fiscal policy)
- In the short run, government does not have to spend equal to tax revenue (they do not have to 'balance their books')