Answer on Question #39486 - Economics - Other

Assignment

1. Explain fiscal policies and its objectives
2. Explain budgets under the following meaning (i.meaning) (ii.types) (iii.importance)

Solution

1. In economics and political science, fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors. These changes can affect the following macroeconomic variables in an economy:

Aggregate demand and the level of economic activity;

The distribution of income;

The pattern of resource allocation within the government sector and relative to the private sector.

The major objectives of fiscal policy are as follows:

- Full employment

- Price stability

- Resource allocation

- Increase in Savings

- Equal Distribution of Wealth

- Control Inflation

- Reduce the Regional Disparity

- Check Rapid Increase in Consumption

2. A budget is an estimation of the revenue and expenses over a specified future period of time. A budget can be made for a person, family, group of people, business, government, country, multinational organization or just about anything else that makes and spends money. A budget is a microeconomic concept that shows the tradeoff made when one good is exchanged for another.

There are following types of budgets:

Sales budget is an estimate of future sales, often broken down into both units and currency. It is used to create company sales goals.

Production budget is an estimate of the number of units that must be manufactured to meet the sales goals. The production budget also estimates the various costs involved in manufacturing those units, including labour and material. Created by product-oriented companies.

Capital budget is used to determine whether an organization's long-term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing.

Cash flow/cash budget is a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short-term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.

Marketing budget is an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.

Project budget is a prediction of the costs associated with a particular company project. These costs include labour, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each. A cost estimate is used to establish a project budget.

Revenue budget consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.

Expenditure budget includes spending data items.

Preparing a budget is an essential component of responsible money management. Whether you just have a few bills, or you’re responsible for paying all of your household expenses, understanding how much money you have and knowing where your money is spent is the first step toward achieving financial independence.