

Answer on Question #44712 – Economics - Macroeconomics

Which policy would you like to adopt in the economy. Why?

1. Increase in taxation and transfer payment by same amount.
2. Increase in government expenditure and taxation by the same amount.
Support this answer with multiplier.

Solution

Increase in government expenditure and taxation by the same amount would be better change, because the government expenditure can be run to support internal or external investment, create new working places and other programs, that can increase the economy efficiency. But the first policy would only reallocate the income of the population without any other effect.