MACROECONOMICS AT WORK EXERCISE

THE BUDGET IN THE LIGHT OF FORECAST ECONOMIC GROWTH

REFERENCE: Mellish, M and Murphy, C. 2003, 'Canberra to cut economic growth forecast to 3pc', *The Australian Financial Review*, 29 April, p. 3.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 6, 9, 15

OVERVIEW

This article, written in the lead-up to the Budget, notes that the context in which the Budget will be formulated is a lower predicted rate of growth in GDP in the coming year. This represents a significant change in predictions of less than a year previously. It was anticipated by commentators that the underlying budget surplus — the excess of government revenue over government expenditure — would, in the absence of variations in either that are outside of those generally anticipated, be significantly reduced.

QUESTIONS

1. What is the magnitude of the reduction in the predicted rate of growth in GDP in the current year? What are the main factors causing this fall?

2. What is meant by a 'surplus budget'? What is the extent of the fall in the surplus that is anticipated to follow from the lower rate of economic growth and how does this reflect the 'rule of thumb' in measuring the effect of a fall in economic growth on the budget surplus?

3. Discuss the implications that a reduction in the surplus may have for the government's tax and expenditure programs?

4. What tax and expenditure policies did the Budget subsequently brought down on 13 May actually incorporate? Were these similar to what was expected?

5. Comment on the likely future trends in the main elements of government tax and expenditure policy.