

## Impact of recession on government finances:

This exercise shows how G and T can be affected by forces outside of the government's control and might provide a way in to a short discussion on debt and automatic stabilisers.

Possible useful links might be some of the New Deal links from the circular flow section if you didn't use it then plus:

Bond yields (NB Greece):

<http://markets.ft.com/RESEARCH/Markets/Government-Bond-Spreads>

Debt clocks:

<http://www.debtclocks.eu/public-debt-and-budget-deficits-comparison-of-the-eu-member-states.html>

<http://www.nationaldebtclocks.org/debtclock/unitedkingdom>

<http://www.debtbombshell.com>

Key points on +/- of debt:

[http://beta.tutor2u.net/economics/blog/unit-4-macro-economics-of-fiscal-deficit-reduction?utm\\_source=feedburner&utm\\_medium=email&utm\\_campaign=Feed%3A+economics\\_news+%28tutor2u+Economics+Blog%29](http://beta.tutor2u.net/economics/blog/unit-4-macro-economics-of-fiscal-deficit-reduction?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+economics_news+%28tutor2u+Economics+Blog%29)

### Instructions:

Give the students the pie charts for 2008 and 2010, the growth chart and the questions which follow. Put them into pairs to discuss what they think is going on.

# **Impact of recession on government finances – student resource**

**Look at the charts and answer the questions**

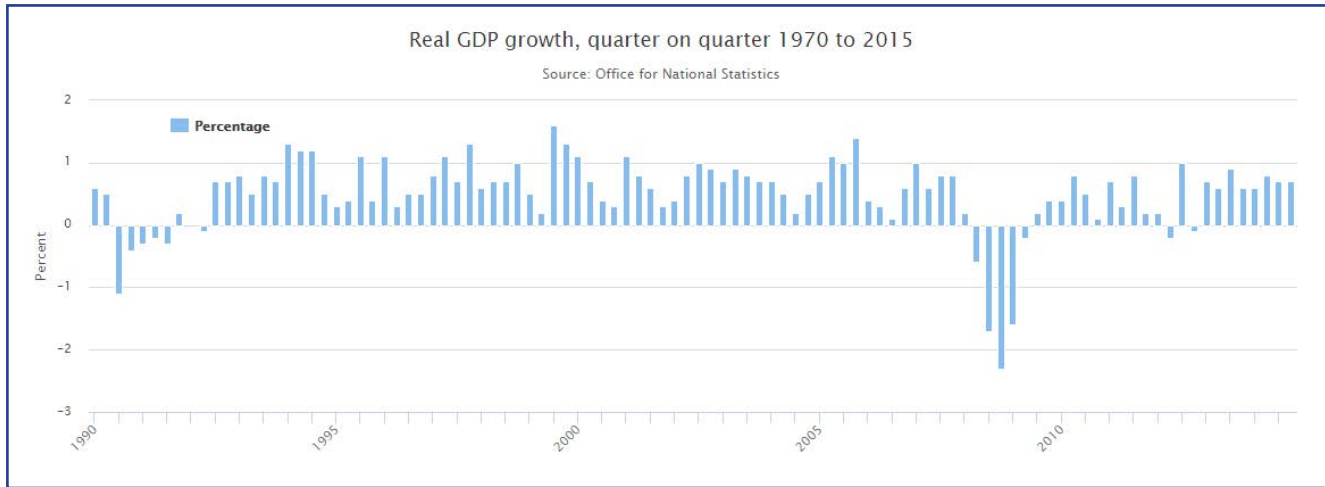
**What was the state of the government's finances in 2008 and 2010: Budget surplus or deficit?**

**What is happening to GDP between 2008 and 2010?**

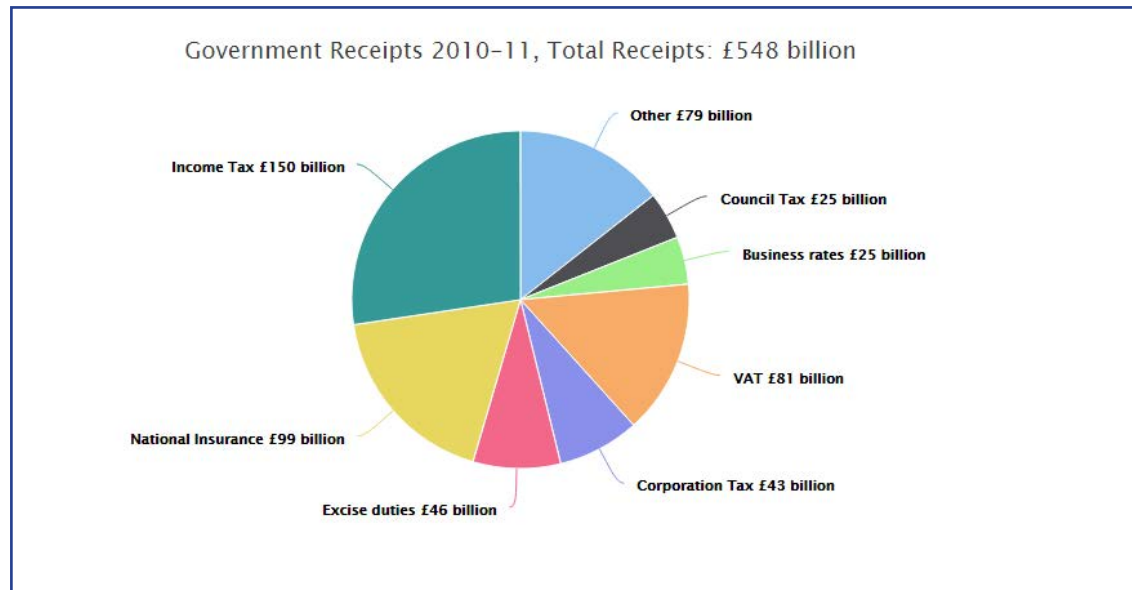
**Why have the government's finances deteriorated between 2008 and 2010 – be specific – explain the theory and then back it up with figures (remember that in real terms, the figures in 2008 have more value because of the amount of inflation between 2008 and 2010)? Think about both tax and government spending.**

**Is the deterioration in the government's finances a good thing or a bad thing (make points on both sides)?**

## UK Economic Growth:

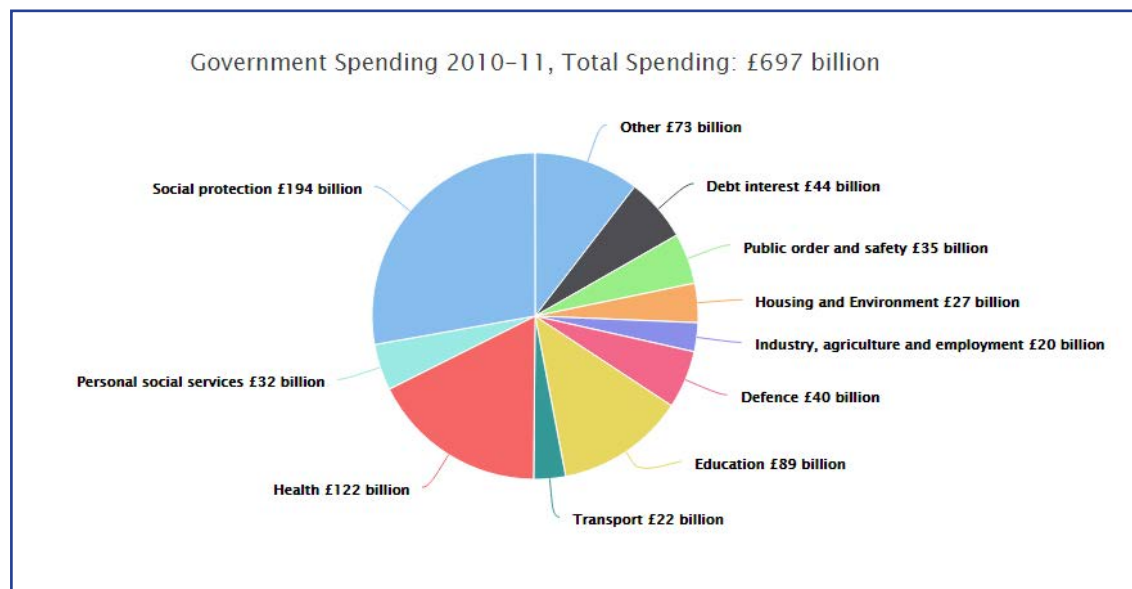


## Budget 2010: Government receipts 2010 -11



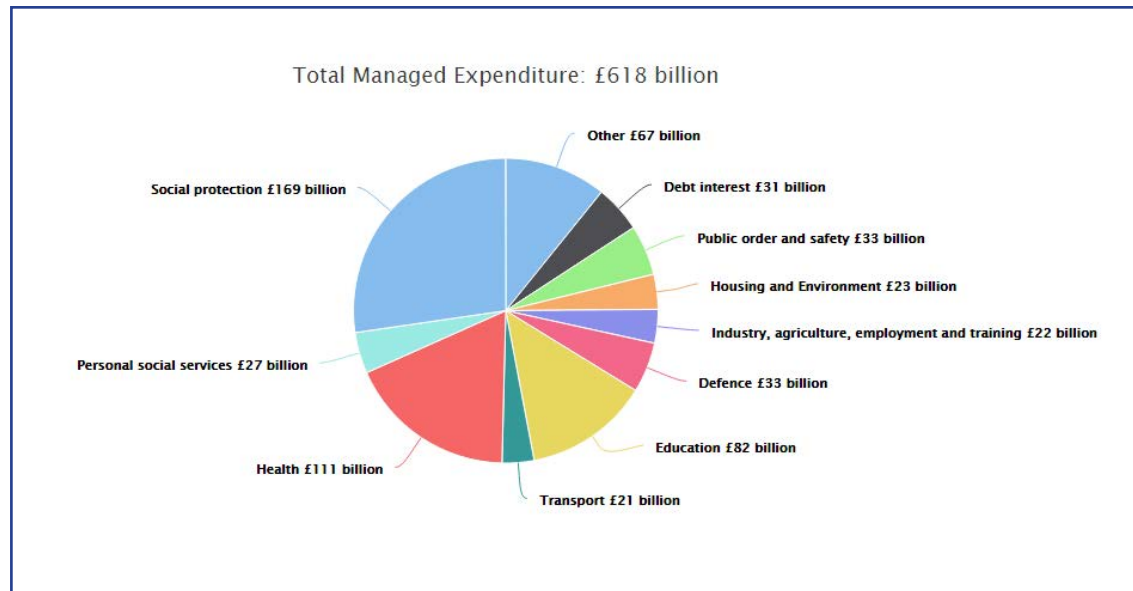
Source: Office for Budget Responsibility 2010-2011 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts- for example, interest and dividends. Figures may not sum to total due to rounding

## Budget 2010: Government spending 2010 -11



Source: HM Treasury 2010-11 near-cash projections. The allocation of spending to functions is largely based on the United Nations' Classifications of the Functions of Government (COFOG). Other expenditure includes general public services (including international services); recreation, culture, and religion; public service pensions; plus spending yet to be allocated and some accounting adjustments. Social protection includes tax credit payments in excess of an individual's tax liability, which are now counted in AME, in line with OECD guidelines. Figures may not sum due to rounding.

## Budget 2008: Total managed expenditure



## Budget 2008: Total receipts

