

Monetary policy is quicker to implement but has a longer time lag than fiscal policy.

Fiscal Policy is a macroeconomic policy which involves government spending and taxation in the business cycle.

As the growth in the Australian economy strengthened over the year 2001, against a backdrop of weakening world economic conditions. Gross Domestic Product increased at an annualised rate of 4 percent over the three quarters to September. Currently the economic growth rate in Australia is at 3.9% which indicates that Australia is making its way up the business cycle in relation to other nations.

Economic growth occurs mainly when an economy produces more goods and services in order to achieve high standard of living.

The deterioration in the world economy has been reflected in a switch in the composition of Australian growth from external to domestic demand, with the external sector subtracting

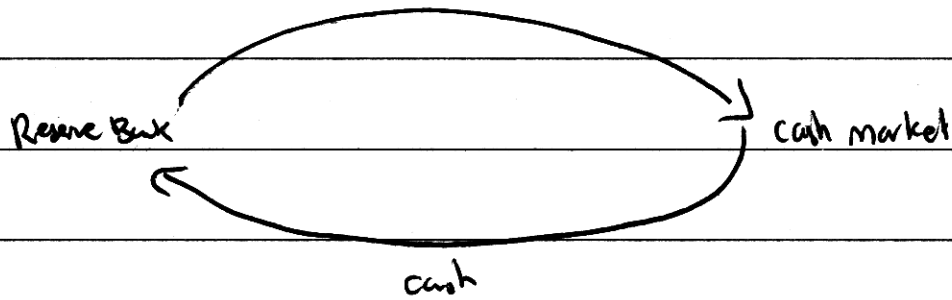
from growth over the second half of the year 2001 after contributing 2 percentage points to growth over the preceding year.

The government has to redistribute ~~income~~ income to those people who are being disadvantaged from others. The government argues that males earn more than females, this should not occur in our economy as the government tries to put a stop to it; by giving every person working what they deserve and equal pay.

Monetary Policy refers to the actions of the Reserve Bank to influence the supply and cost of credit in the economy.

The use of Domestic Market operations has to take place in order for the Reserve Bank to influence the supply and cost of credit in the economy.

Government securities

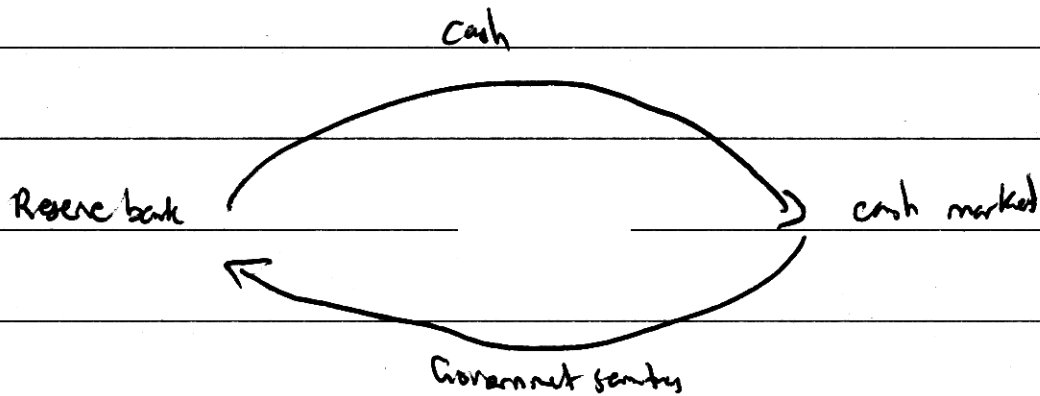


Loosening the Monetary policy: Purchase of Government securities.

Effects: Increase liquidity in cash market and interest rate.

Low level cash rate and other interest rate.

Tightening the Monetary policy: Sale of Government securities



Effects Decrease liquidity ~~and cash~~ in cash market and interest rate.

Raise level of cash rate and other interest rate.

In summary the federal Government uses fiscal policy effectively in order to promote economic growth, redistribute income and assist external stability in the global economy.