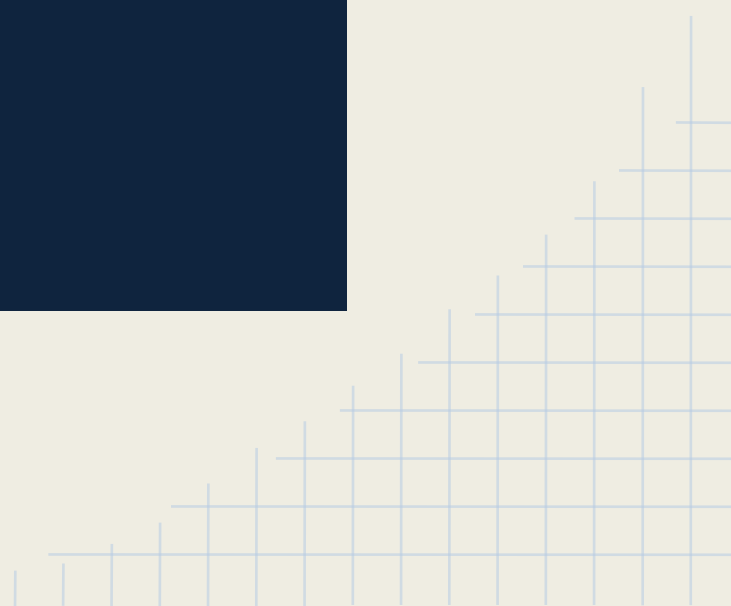




Unit 4 Notes

The Role of Government



The Federal Budget

Federal Budget = Income - Spending

Income

Money comes from taxes

Income taxes, social security, etc.

Spending

Social programs, defense, interest, etc.

If spending exceeds income, the result is a *budget deficit*

How does the government pay for the expenses that exceed its income? _____

The National Debt

To pay for expenses beyond its income, the government borrows money.

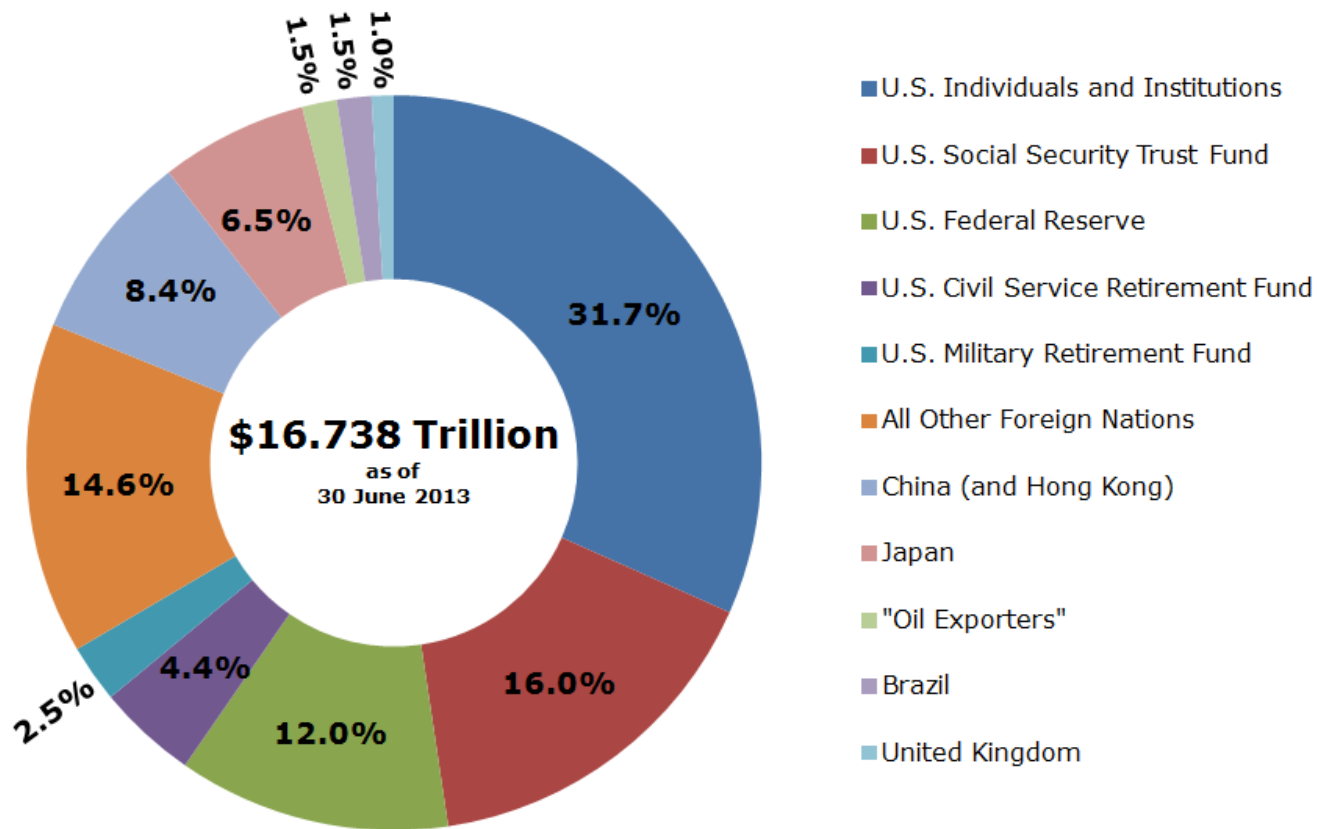
The sum of that borrowing is called the national debt.

The national debt is currently \$17.7 trillion.

But to whom does the United States owe \$17.7 trillion?

The National Debt

Summer 2013: To Whom Does the U.S. Government Owe Money?



Government Spending

From the Budget Hero Simulation:

Defense and Diplomacy (\$977B)

Ex.

Schools and Kids (\$115B)

Ex.

Science and Nature (\$95B)

Ex.

Housing and Living (\$410B)

Ex.

Miscellaneous (\$136B)

Ex.

Government Spending

From the Budget Hero Simulation:

Infrastructure (\$136B)

Ex.

Healthcare (\$1,524B)

Ex.

Social Security (\$1,318B)

Ex.

Interest on Debt (\$714B)

Ex.

Government Taxation

The Federal Government gets the money it spends from taxing individuals and businesses.

16th Amendment: The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

Types of taxes:

- Income tax
- Sales tax (state)
- Social Security Tax (FICA)
- Gasoline Tax

Types of Taxation

Progressive Tax - A tax in which the tax rate increases as income increases.

For example, our personal income tax system is a progressive tax. Gretchen makes 100,000 per year. She is taxed at a higher rate (28%) than Ryan, who makes \$50,000 per year (25%).

Proportional Tax - A tax in which the tax rate stays the same at every income level. Also called a flat tax.

For example, Ryan makes \$50,000 per year. Gretchen makes \$100,000 per year. Each pay in an income tax of 15%.

Types of Taxation

Regressive Tax - A tax in which people that make little money pay a higher percentages of their income in tax than people that make more money.

For example, our state sales tax system is a regressive tax. Assume that two people each buy a \$500 computer. The sales tax on the computer is \$50. Ryan makes \$1,000 per month. Gretchen makes \$2000 per month. Ryan pays 5% ($50/1000$) of his income in tax. Gretchen pays 2.5% ($50/2000$) of her income in tax. The “poorer” person pays a larger percentage of his income in tax than the wealthier individual.

Public Goods

A public good is defined as: a commodity or service that is provided without profit to all members of a society, usually by the government.

To be considered a public good, the good must be both:
Non-excludable - individuals cannot be excluded from using the good

Non-rivalrous - use by one individual does not reduce availability to others

Examples of public goods: street lights, _____, _____.

Public Goods

In an economic system in which sellers are motivated by profit, why must the government provide public goods?



Public Goods

In an economic system in which sellers are motivated by profit, why must the government provide public goods?

The government provides most public goods because sellers (individuals and businesses) cannot exclude people from using the product without paying for it. Thus, they cannot profit from providing the good.

Public Goods

How does the government pay for public goods?



Public Goods

How does the government pay for public goods?

The government pays for public goods with money collected from taxes.

October 9, 2014

Answer the following questions.

- Page 423, 2, 3
- Page 429 3, 4
- Page 433, 2, 3, 4

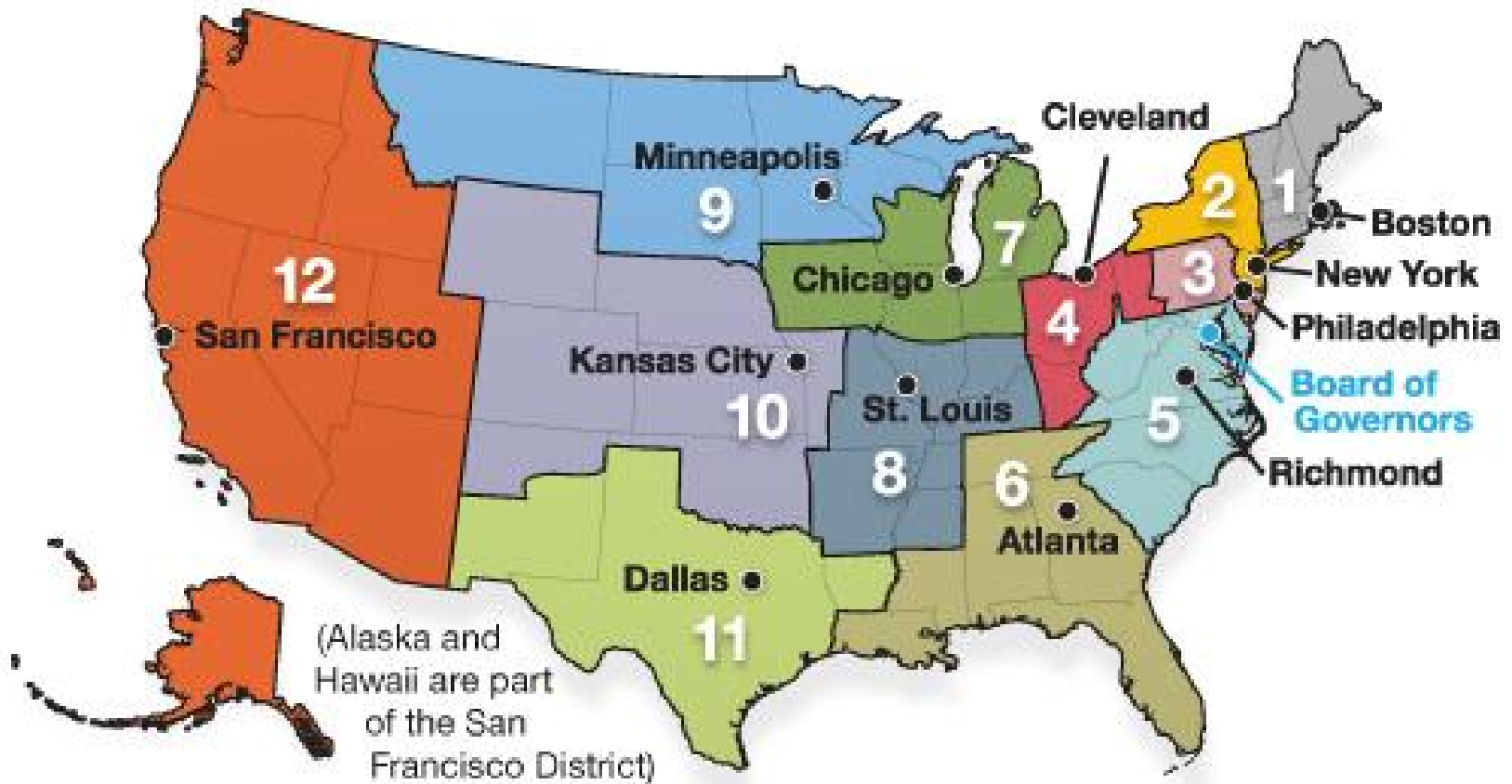
Complete the Types of Taxation Worksheet if you were not here yesterday.

If you have a test that you need to make up, you will be doing so today.

The Federal Reserve

- History
 - Created in 1913 - Woodrow Wilson
 - Created to restore the public's faith in the banking system and to stabilize the economy
- Organization
 - Country is divided into 12 districts
 - Clarksville, TN is in District 6
 - Board of Governors directs the operations of the Fed
- Janet Yellen is currently the Chairman of the Fed

The Federal Reserve



The Federal Reserve

- Regulate the Money Supply
 - To speed up or slow down the economy
- Clearing Checks
 - Processing most of the checks that people and businesses write
- Acting as Government's Fiscal Agent
 - Does the banking for the government
 - Writes checks for the government
 - Tax refunds, social security checks

The Federal Reserve

- Supervising Banks
 - Ensuring they are following banking rules
- Setting Reserve Requirements
 - To speed up or slow down the economy
- Supplying Paper Currency
 - Design and print money, including security measures

Monetary Policy

- The Federal Reserve's primary focus is to keep the economy growing at a steady rate.
 - Low unemployment - no recession
 - Low inflation
- The process by which Fed works to achieve this goal is called *monetary policy*.
 - Open-market operations - Buying and selling of T-bonds to affect the money supply
 - Reserve requirements - the percentage of deposits banks must keep on hand
 - Federal funds rate - the interest rate that banks charge each other

Monetary Policy

- Loose Monetary Policy (expansionary)
 - Goal: Reduce unemployment and avoid/end recession by *increasing* money supply
 - Buy government securities (T-bonds)
 - Decrease reserve requirements
 - Lower interest rates
- Tight Monetary Policy (contractionary)
 - Goal: Avoid/reduce high inflation by *reducing* money supply
 - Sell government securities (T-bonds)
 - Increase reserve requirements
 - Raise interest rates

Fiscal Policy

- The government would like to keep the economy growing at a steady rate.
 - Low unemployment - no recession
 - Low inflation
- The process by which government works to achieve this goal is called *fiscal policy*.
 - Three tools of fiscal policy:
 - i. Government spending (recall Budget Hero)
 - ii. Taxes
 - iii. Transfer payments (SS, welfare, unemployment)

Fiscal Policy

- Loose Fiscal Policy (expansionary)
 - Goal: Reduce unemployment and avoid/end recession
 - Increase government spending
 - Reduce taxes
 - Increase transfer payments
- Tight Fiscal Policy (contractionary)
 - Goal: Avoid/reduce high inflation
 - Decrease government spending
 - Increase taxes
 - Decrease transfer payments

Keynesian Economics

Keynesian Economics

Economist John Maynard Keynes believed that, in times of economic downturn, the government should do (spend) what the consumers cannot.

Historical applications of Keynesian economics:

- FDR's New Deal - \$50B (1933-1936)
- George W. Bush - \$170B tax rebate (2008)
- Barack Obama - \$787B federal spending package (2009)

Classical Economics

Classical Economics

The theory that the economy will eventually fix itself without government intervention (sounds like Adam Smith)

- Friedrich von Hayek (received 1974 Nobel Prize in Economics)
 - Warned of the danger of central planning
 - Believed that free markets were more efficient at allocating resources than government planners
- Milton Friedman (received 1976 Nobel Prize in Economics)
 - Believed that the economy works best when the government leaves it alone

March 31, 2014

According to the text on page 458, how did Milton Friedman feel about the government's role in solving a nation's economic problems? Support your answer with one direct statement from the text.

According to the text on page 424, how did John Maynard Keynes feel about the government's role in solving a nation's economic problems? Support your answer with one direct statement from the text.

Work on "Headlines" worksheet and Unit 4B LG when finished.

Regulatory Agencies

- The Federal Government regulates the economy to protect consumers and workers. See page 248 for list of Federal Regulatory Agencies (it will be on Unit 4 Test)
- 1980s-1990s - Government *deregulated* some business activities
 - Deregulation - Government loosens restrictions on an industry
 - Example: FCC ~ TV