Friday, December 6th

Entry Task: Take out a colored pen!

Chapter 16: Government Spends, Collects, & Owes

- 16.1: Growth in the Size of Government
- 16.2: The Functions of the Government
- 16.3: The Federal Budget and the National Debt
- 16.4: Taxation

16.1: Growth in the Size of Government

Essential Question: What is the right amount of government spending?

16.1 Vocab

- Public-works projects
- Medicare

Government Growth

- Learning Objective / Main Idea: Understand that government spending at all levels (federal, state, local) has increased significantly over the years.

1929 vs 2019

1929

- 3 million civillian workers at all levels of the government
- During the Depression, there was a demand for more government services.

2019

- 2 million federal government workers
- 22 million local & state employees employed by the government
- Why? The number of government functions has risen and the size of the population has grown!

Late 1960's - 1970

- State & local governments spent less than the federal government
- Federal government paid for:
  - National defense
  - Salaries of members of Congress, federal judges, & employees of executive departments such as the State Department
  - Public-works projects: publicly used facilities, such as schools and highways, built by federal, state, or local governments with public money

In about 1970

- Federal funds started diminishing.
- State & local governments increasingly spent money on items such as sewers, roads, and schools

Government Involvement in the Economy

TRANSPORTATION

EDUCATION

PRODUCT SAFETY

WORKER SAFETY

TAXATION

Why Has Government Grown?

- Learning Objective / Main Idea: Explain that the level of government spending reflects political decisions about how much goods and services should be provided by the public or private sectors.

Why the huge growth?

- **Depression:** appeared to be a need for more government services
- **1940s:** government spent millions to pay for WWII
- **1960s & 70s:** the nation become richer, and people demanded more **government services to even out certain income inequities**
- **Today:** government purchases represent over 20% of GDP (not including interest payments on national debt and transfer payments)

The True Size of Government

- The true size of government cannot be measured merely by the cost of government spending.
- Any discussion of the government's size must include where government spends these funds!
- When the government taxes you to provide you with a certain service, this cost of government is included in government spending.
  - Ie: **Medicare** – a government program that provides health care for the elderly
- What if the government requires your employer to provide the same service (for example, medical insurance in Massachusetts)?
  - The federal government taxes employees to pay for government-provided health insurance, and state governments require employers to provide health insurance directly.

The Growth of Government – Good or Bad?

- General rule: government taxing & spending has opportunity costs

16.2: The Functions of Government

Essential Question: What would make you support redistribution of income from the more fortunate to the less fortunate?

16.2 Vocab

- Public goods
- Income redistribution
- Social-insurance programs
- Social Security
- Workers' compensation
- Public-assurance programs
- Welfare
- Supplemental Security income
- Temporary Assistance for Needy Families
- Medicaid
- Externalities

3 Major Functions

- Providing public goods
- Promoting the general welfare
- Regulation & economy stability

Providing Public Goods

- Learning Objective / Main Idea: Explain public goods – goods or services that many people use at the same time.

What are public goods?

- Special type of goods or services that can be used by many individuals at the same time without reducing the benefit each person receives.
  - Law enforcement
  - Streetlights
  - Sewer systems
  - Public parks

Certain goods & services have *special merit.*

- Merit goods are ones that are deemed socially desirable by government leaders:
  - Museums
  - Ballets
  - Classical music concerts
  - Education
  - Health care
  - Public libraries
- The government may subsidize such goods by requiring all taxpayers to support them.

The opposite of merit goods are *demerit goods.*

- Demerit goods are ones that government officials have deemed socially undesirable:
  - Tobacco
  - Alcohol
  - Gambling
  - Junk food
- The government exercises control over these goods by taxing, regulating, or prohibiting the manufacture, sale, or use of them. Taxes on these goods are often called "sin taxes."

Promoting the General Welfare

- Learning Objective / Main Idea: Describe how the government can use its power to tax and spend to alter market outcomes.

Americans who do not have sufficient income to maintain a living

- … are placed at the bottom of the distribution of income in this country.
- These Americans benefit from another function of the government: to provide for the public wellbeing by assisting specific groups.
- These groups include the: aged, ill, & poor.

This is primarily accomplished through income redistribution.

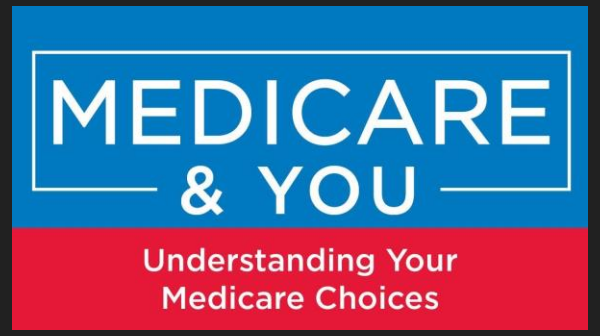
- This is a government activity that takes income from some people through taxation and uses it to help citizens in need.
- Tax dollars are used to subsidize 2 general categories of assistance:
  - Social-insurance programs
  - Public-assistance programs

What are Social Insurance Programs?

- These are government programs that pay benefits to retired and disabled workers, their families, and the unemployed.
- Financed by taxes that we, other workers, and employers pay into the programs.

Examples of Social Insurance Programs

- **Social Security:** federal program that provides monthly payments to people who are retired or unable to work
  - Intended to provide supplemental income rather than serve as a primary source of income
- **Medicare**: federal program that provides low-cost health care for the elderly
- **Workers' compensation:** government program that extends payments for medical care to workers injured on the job



What are Public Assistance Programs?

- These are government programs that make payments to citizens based on need, regardless of a person's age and whether or not that person has paid taxes into the program.

Examples of Public Assistance Programs

Supplemental Security Income: federal programs that include foods stamps and payments to the disabled and aged who have little to no income. It provides funds to meet basic needs for food, clothing, and shelter.

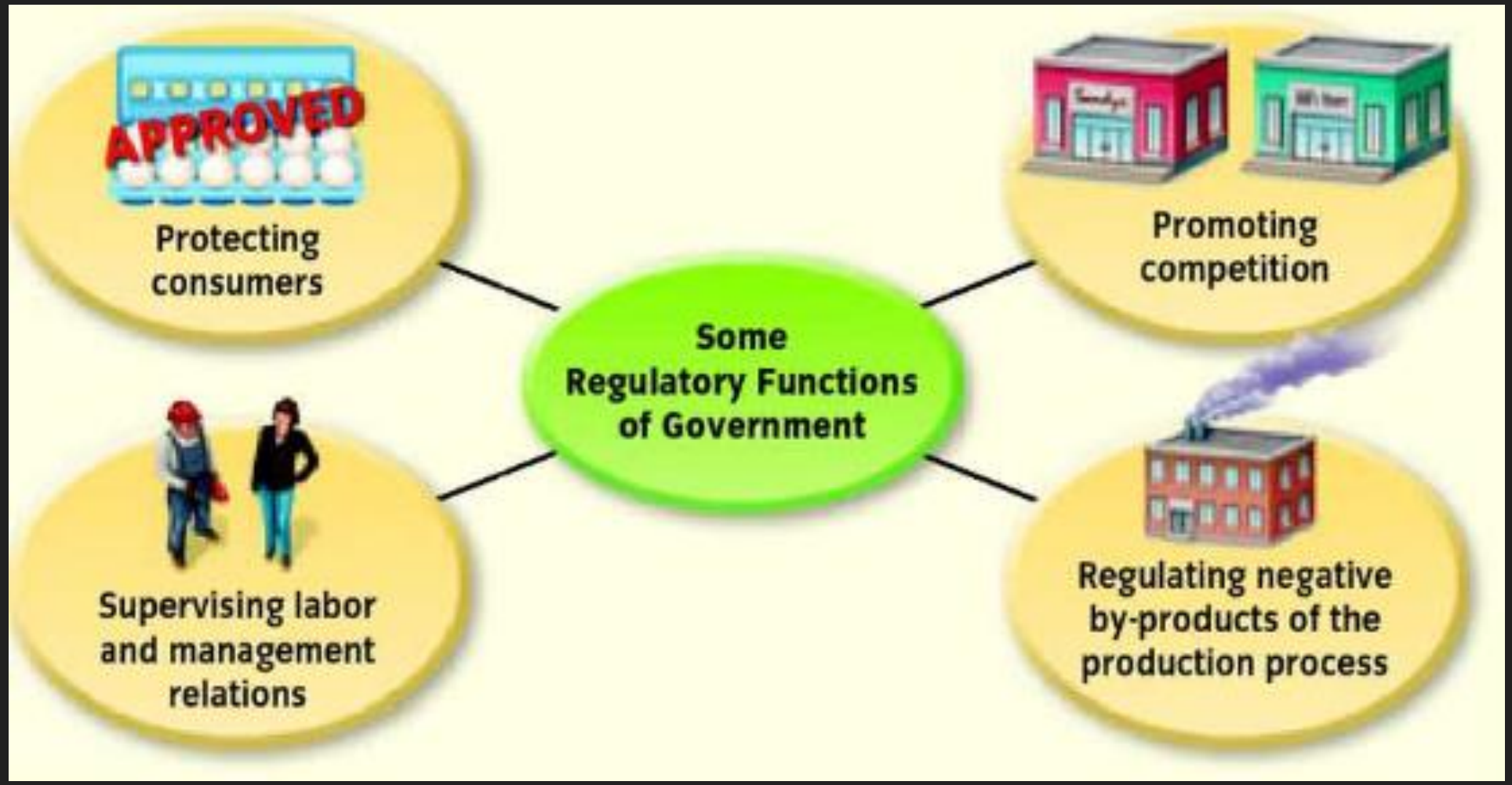
Temporary Assistance for Needy Families: state-run program that provides assistance and work opportunities to needy families raising young children.

Medicaid: state & federal public-assistance program that helps pay health care costs for low-income and disabled persons (not paid to individuals, rather, straight to health care providers)

Regulation & Economic Stability

- Learning Objective / Main Idea: Stable growth, low unemployment, and low inflation are primarily economic goals of government.

Government Regulation



Regulating Economic Activity

- An important regulatory function concerns **externalities** – economic side effects or by-products that affect an uninvolved third party; can be negative or positive
  - Negative example: pollution (I.e. pollution from a steel mill's smokestack's may cause health problems to those in the area)
  - Positive examples: education, health care

Ensuring Economic Stability

- This means shielding citizens from harmful effects of business fluctuations, such as unemployment, high inflation, recessions, & depressions.
- More in Chapter 17!

Critics of Government Involvement

- Some think that merit goods should be provided by private organizations instead of being funded by taxpayer dollars.
- Some believe that most government assistance discourages personal initiative, affects incentives, and harms self-development.
- Some argue that most government regulations raise the prices of goods and services.

To Do this weekend:

- Complete all your Guided Reading pages through 16.2!
- Take another DECA multiple choice practice test!
- Complete any missing assignments.

Monday, December 9th

Entry Task: Take out your notes!

16.3: The Federal Budget & the National Debt

Essential Question: How does scarcity affect the federal budget process?

16.3 Vocab

- Fiscal year
- Budget deficit
- Deficit financing
- National debt
- Budget surplus

The Budget-Making Process

- Learning Objective / Main Idea: Congress & the president work together to prepare an annual budget showing the anticipated federal expenditures and revenues for the coming fiscal year.

How to federal government budgeting process works…

- 18 months before the **fiscal year** (year by which accounts are kept; Oct 1 – Sept 30) begins, the executive branch begins to prep a budget
- Office of Management & Budget (OMB) makes an outline of tentative budget for the next fiscal year (departments & agencies bargain for larger allocation of $)
- OMB director takes the set of figures to the president, along with the OMB's analysis of the country's economic situation
- The president & key advisers make decisions about potential impact of budget on the nation's economic policy & goals
- President approves budget plan and submits it to Congress by January
- Various committees & subcommittees of Congress examine it; Congressional Budget Office (CBO) advises the committee
- Congress is supposed to pass 2 budget resolutions that set binding limits on spending & taxes for the upcoming fiscal year

Steps in the Budget Process

February–September

Executive branch agencies develop requests for funds and submit them to the Office of Management and Budget (OMB).

September–December

The president and OMB review the requests and make the fiscal decisions on what goes in the budget. The budget is printed and formally sent to Congress.

January–September (of following year)

The House and Senate Budget Committees review the president's proposed budget. By April 15, these committees prepare an initial resolution for the budget that goes to the entire Congress for debate. By September 25, the congressional budget should be finalized and passed by the House of Representatives, which approves spending and revenue bills.

October 1

The fiscal year begins.

October 1–September 30

Agency program managers implement the budget and disburse funds.

October–November

Data on actual spending and receipts for the completed fiscal year become available, and the Government Accountability Office audits the fiscal-year outlays.

What happens if Congress doesn't pass the resolutions in time?

- It's pretty common... or the resolutions aren't treated as binding
- Fiscal year starts without a budget
- Agencies that allocate funds can continue spending as they spent the year before until the new budget resolution is passed

The National Debt

- Learning Objective / Main Idea: Explain how a budget deficit happens – when government expenditures exceed revenues collected, and the difference is financed through borrowing, which adds to national debt.

What's a deficit?

- **Budget deficit** – situation when the amount of government spending exceeds its receipts during the fiscal year

Which is caused by…

- Deficit financing – government policy of spending more than it is able to bring in through revenues

Which leads to…

- Borrowing!

Government borrowing

- The government borrows to cover the deficit by selling *government securities* to individuals, businesses, & foreign governments
- Each year, the government creates new debt by issuing securities; at the same time, it retires old debt by paying off bonds, notes, & bills as they come due

National Debt

- Total amount of outstanding debt for the federal government (aka public debt)

$22 trillion

Budget surplus

- Situation when the amount of government receipts is larger than its expenditures during the fiscal year
- There hasn't been a budget surplus in the US since 2001

The National Debt Equation

Total of all yearly deficits

−

Any yearly surpluses

=

National debt

The budget deficit is the annual amount by which government spending exceeds revenue.

A budget surplus occurs whenever the government's annual revenue exceeds spending.

Total amount owed by the federal government.

16.4: Taxation

Essential Question: Which groups in society should pay more taxes, and which groups should pay less?

16.2 Vocab

- Benefits-received principle
- Ability-to-pay principle
- Proportional tax
- Progressive tax
- Regressive tax

Principles of Taxation

- Learning Objective / Main Idea: Understand that taxes are usually justified according to either one's ability to pay or the benefits received.

Taxes are usually justified according to one of two major principles

- Benefits-received principle
- Ability-to-pay principle

Benefits-received principle

- System of taxation in which those who use a particular government service support it with taxes in proportion to the benefit they receive; those who do not use a service do not pay taxes for it
  - Useful in raising funds to pay for a service only certain individuals use
  - e.g. gasoline tax to pay for highway construction – frequent users of the highways often buy more gasoline and therefore pay more in gasoline taxes

Ability-to-pay principle

- Principle of taxation in which those with higher incomes pay more taxes than those with lower incomes, regardless of the number of government services they use
  - e.g. In most cities, all property owners (even those without school-aged children) must pay property taxes to support the local school system. Property taxes are calculated as a percentage of the value of a person's home; thus, wealthier people with more expensive homes pay more property taxes

Forms of Taxation

- Learning Objective / Main Idea: Explain the 3 classifications of taxes: regressive, progressive, and proportional

Taxes can be direct or indirect

- Indirect: can be shifted to others (so if businesses must pay a new tax, they can pass along the cost of that new tax to customers)
- Direct: cannot be shifted to anyone else

3 classifications of taxes

PROPORTIONAL

PROGRESSIVE

REGRESSIVE

Proportional Tax

- Tax that takes the same percentage of all incomes; as income rises, the amount of tax paid also rises

Progressive Tax

- Tax that takes a larger percentage of higher incomes than of lower incomes; justified on the basis of the ability-to-pay principle
- As you make more reported income, you pay an increasingly higher percentage of that additional income in taxes to the federal government

Regressive Tax

- Tax that takes a larger percentage of lower incomes than of higher incomes
- As your income increases, the percentage that you pay in taxes decreases
- Common example: sales tax on food

Major Taxes

Tax	Description	Type
Personal income	Tax is a percentage of income and a major source of federal revenue; many state governments also levy	Progressive at the federal level, but sometimes proportional at the state level
Social insurance	Taxes covered by the Federal Insurance Contributions Act (FICA); the second-largest source of federal revenue	Proportional up to income of $94,200 in 2006, regressive above that
Corporate income	Federal tax as a percentage of corporate profits; some states also levy	Progressive up to $18.3 million at the federal level, proportional above that
Excise	Tax paid by the consumer on the manufacture, use, and consumption of certain goods	Regressive if people with higher incomes spend a lower proportion of income on taxed items
Estate	Federal tax on the property of someone who has died; some states also levy	Progressive; rate increases with the value of the estate
Inheritance	State tax paid by those who inherit property	Varies by state
Gift	Federal tax paid by the person who gives a large gift	Progressive; rate increases with the value of the gift
Sales	Tax paid on purchases; almost all states as well as many local governments levy; rate varies from state to state and within states; items taxed also vary	Regressive if people with higher incomes spend a lower proportion of income on taxed items
Property	State and local taxation of the value of both real and personal property	Proportional; rate is set by state and local governments
Customs duties	Tax on imports; paid by the importer	Proportional

Tuesday, December 10th

ENTRY TASKS

- Grab a laptop from the cart or take out your own!
- Use the restroom if you need to. You will not be able to leave during your DECA test.
- Put everything away into your backpack (cell phone, laptop, notes, water bottle, pencil pouch, etc). You should have nothing on your desk except for a laptop and a simple calculator (optional).

First, find your participant ID here:

http://bit.ly/2RAc3Xf

Then, follow these steps:

1. Go to this website: https://www.answerwrite.com/deca/wa4
2. Enter the password: profit
3. Begin your test. You have 75 minutes to complete it.

- DO NOT EXIT THE TEST AT ANY TIME. IT WILL INVALIDATE YOUR SCORE AND YOU WILL GET A ZERO.

Reminders

- You have 75 minutes to complete the test.
- You may not leave the classroom once you have begun your test.
- Only basic function calculators are permitted; no graphing calculators.
- DO NOT EXIT THE TEST AT ANY TIME. IT WILL INVALIDATE YOUR SCORE AND YOU WILL GET A ZERO.

- Once you're done...

1. Submit your test.
2. Shut down your laptop.
3. Return your laptop to the cart and **plug it in**.
4. Work on other homework; relax.

Upcoming Dates!

- Thursday 12/12: Ch 16 quiz
- Monday 12/15: Ch 17 quiz
- Thursday 12/19: Unit 3 Part 2 Test

Thursday, December 12th

Entry Tasks:

Take out your notes; you have 5 minutes to study for the Chapter 16 quiz

Make sure you've completed all of your Guided Reading pages through 16.4

Chapter 17: Stabilizing the National Economy

- 17.1: Unemployment & Inflation
- 17.2: The Fiscal Policy Approach to Stabilization
- 17.3: Monetarism & the Economy

17.1: Unemployment & Inflation

Essential Question: How do you think unemployment and inflation are connected?

17.1 Vocab

- Stabilization policies
- Unemployment rate
- Full employment
- Underground economy
- Demand-pull inflation
- Stagflation
- Cost-push inflation

2 biggest threats to a nation's economic stability

High unemployment

inflation

Measuring Unemployment

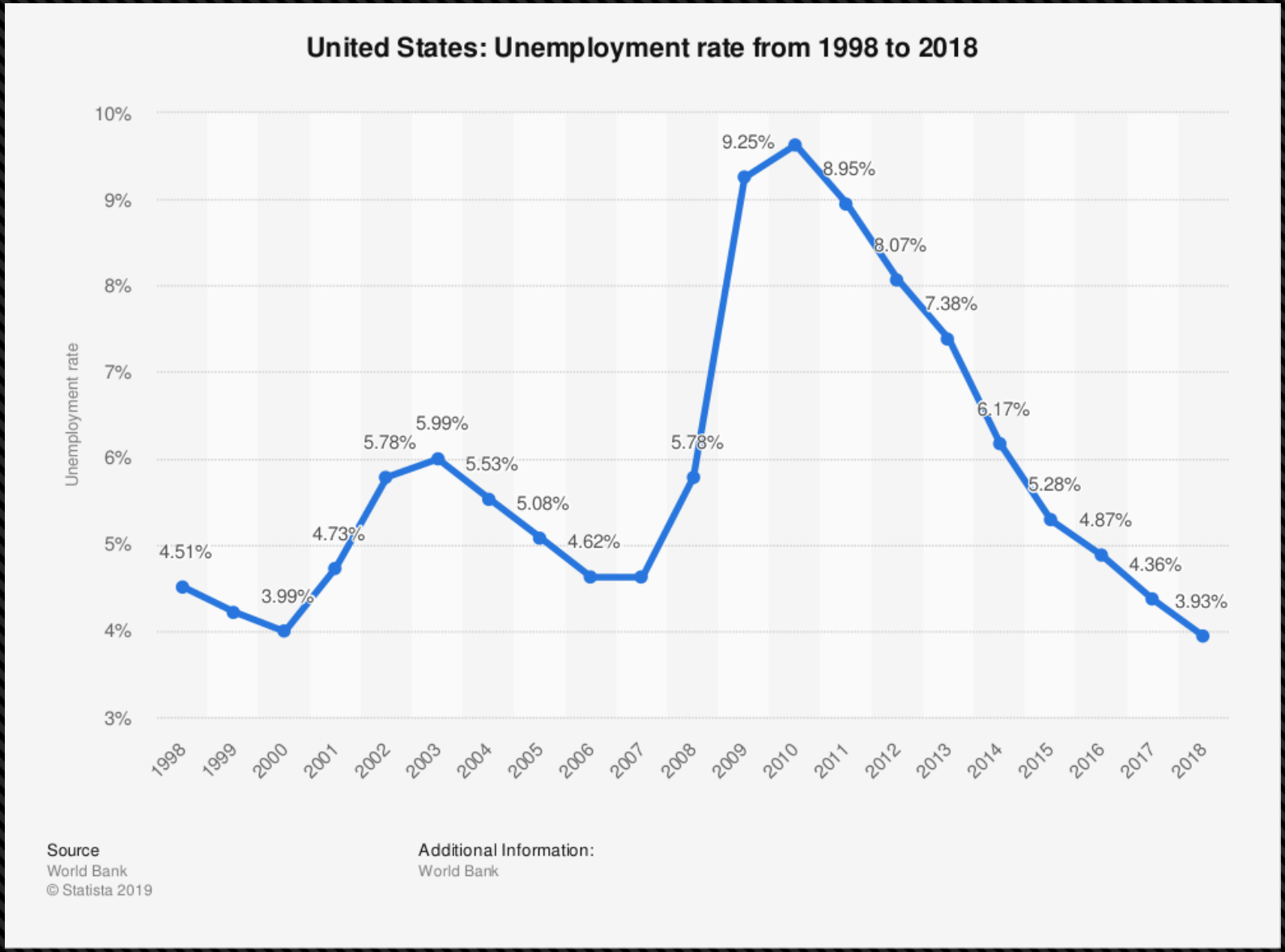
- Learning Objective / Main Idea: Define the 4 classifications of unemployment: cyclical, structural, seasonal, or frictional.

How does the government keep the economy healthy?

- **Stabilization policies** – attempts by the federal government to keep the economy healthy (includes both monetary & fiscal policies)

What's one statistic economists look at regarding economic health?

- **Unemployment rate** – percentage of civilian labor force that is unemployed but is actively looking for work
  - Not included in the labor force: for example, students, retired people, people in long-term hospital stays
  - High unemployment is usually a sign that all is not well in the economy


United States: Unemployment rate from 1998 to 2018
Unemployment rate
10%
9%
8%
7%
6%
5%
4%
3%
4.51%
3.99%
4.73%
5.78%
5.99%
5.53%
5.08%
4.62%
5.78%
9.25%
8.95%
8.07%
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Source
World Bank
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Additional Information:
World Bank

There are 4 classifications of unemployment

CYCLICAL

STRUCTURAL

SEASONAL

FRICTIONAL

Types of Unemployment

Type	Description	Characteristics
Cyclical	Unemployment associated with up or down fluctuations in the business cycle	Rises during recessions and depressions; falls during recoveries and booms
Structural	Unemployment caused by changes in the economy, such as technological advances or discoveries of natural resources	Can result when workers are replaced by computers or other machines or when cheaper natural resources are found elsewhere; often affects less-skilled workers
Seasonal	Unemployment caused by changes in the seasons or the weather	Affects construction workers, particularly in the Northeast and Midwest; also affects farmworkers needed only during certain months of the growing season
Frictional	Temporary unemployment between jobs because of firings, layoffs, voluntary searches for new jobs, or retraining	Always exists to some degree because of the time needed between jobs to find new work and the imperfect match between openings and applicants

What should full employment be?

- **Full employment** – condition of the economy when the unemployment rate is lower than a certain percentage established by economists' studies
- Economists tend to disagree what the level of full employment should be
  - Most have come to a general agreement that the economy is at full employment when the unemployment rate is about 6%

The unemployment rate is only an estimate…

- It does not include certain types of workers; e.g. people who have stopped looking for work, people who work in the family business without receiving pay
- Government staticians cannot possibly interview every person in and out of the labor force
- Survey results are imperfect because of the underground economy – transactions by people who do not follow federal and state laws with respect to reporting earnings (e.g. gamblers, drug traffickers, tax evaders)

Inflation

- Learning Objective / Main Idea: Explain that inflation is caused by excessive expansion of the money supply or government spending, according to the demand-pull theory.

How does inflation affect the economy?

- Unpredictable inflation can destabilize the economy
- It can also affect consumers' standard of living. For example…
  - If you receive a 5% pay raise during a year when inflation is 8%, your real income has decreased
- Inflation is a serious problem for those who are living on fixed incomes (e.g. retirees)

Economists have 2 competing ideas on how inflation occurs

Demand-pull theory

Cost-push theory

Demand-Pull Theory

- Theory that prices rise as the result of excessive business and consumer demand; demand increases faster than total supply, resulting in shortages that lead to higher prices
- Can occur for several reasons:
  - Fed causes the money supply to grow too rapidly
  - Increases in government spending & in business investment
  - Reduction of taxes
  - Consumers begin saving less

Cost-Push Theory

- Theory that higher wages push up prices
  - When businesses have to pay higher wages, their costs increase; to maintain their profit levels, businesses must raise the prices of the goods and services they produce
- This causes **stagflation** – combination of inflation and stagnation (low economic activity)
- During periods of cost-push inflation, unemployment can remain high; prices are adjusted for higher wages and profits (not higher aggregate demand)


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17.2: The Fiscal Policy Approach to Stabilization

Essential Question: Where do you fit into the circular flow of income?

17.1 Vocab

- Fiscal policy
- Circular flow of income & output

Most economics belong to 1 of 2 groups on the question of stabilization

1. Use of the Federal Reserve to stabilize the economy (Ch 15)
2. Fiscal policy

The Circular Flow of Income & Output

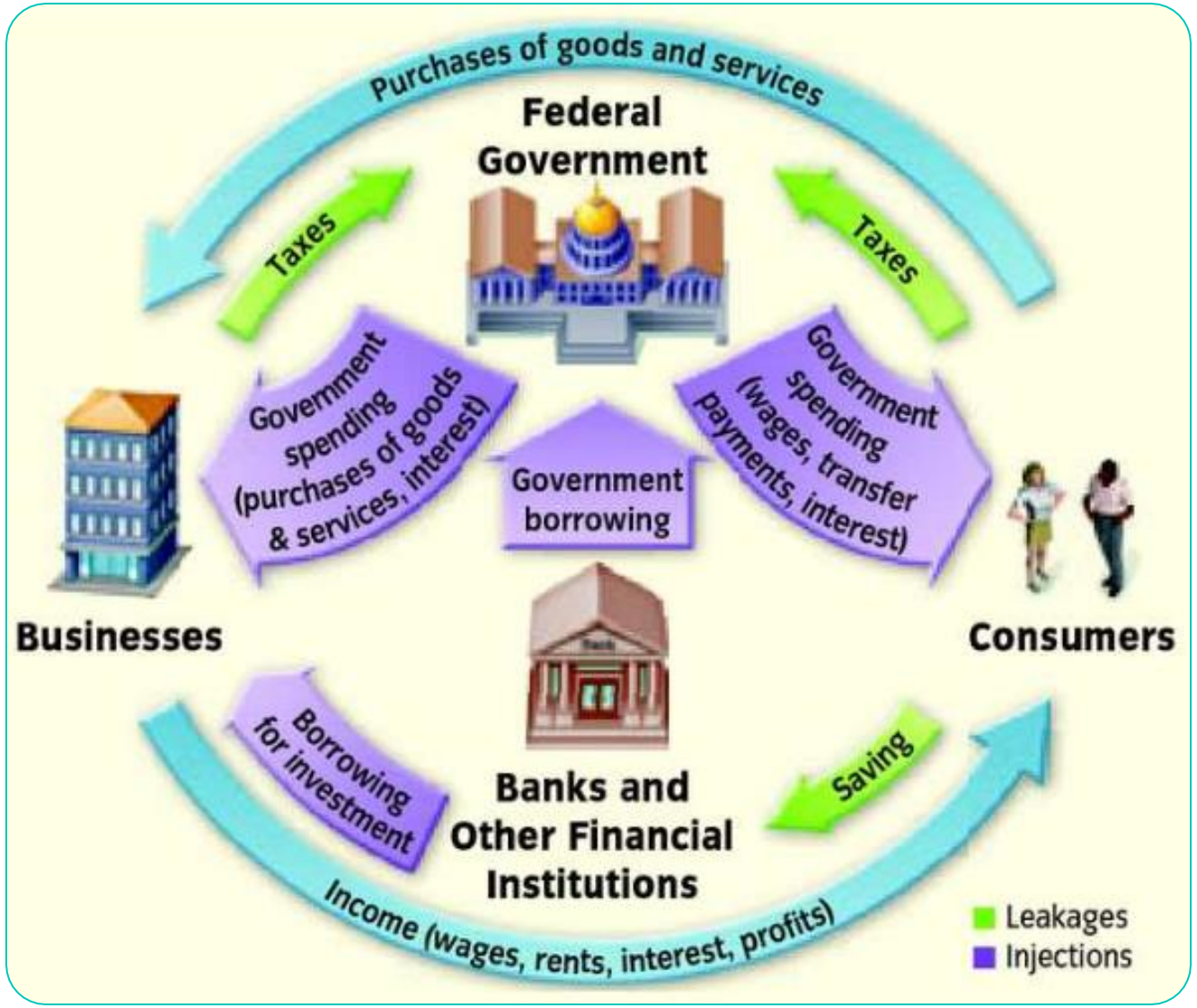
- Learning Objective / Main Idea: Keynesian economists advocate the use of government spending to stimulate economic activity and reduce unemployment during recessions.

What's fiscal policy?

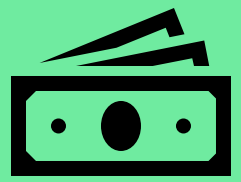
- The federal government's use of taxation and spending policies to affect overall business activity
  - Fiscal policy theories developed by **John Maynard Keynes** during the Great Depression – believed that the forces of aggregate supply and demand operated too slowly in a serious recession, and that government should step in to stimulate aggregate demand

Circular flow of income & output

Economic model that pictures income as flowing continuously between businesses & consumers



Not all income follows this flow…



LEAKAGES

INJECTIONS

Leakage

- The removal of money income
  - When people deposit their income into savings accounts, this is considered leakage from the circular flow
  - Government taxation

Injection

- Injections of income into the economy
  - Business investment – purchase of new plants & equipment, increase in inventories
  - Government spending, such as on maintaining national parks

Ideally, leakages & injections balance each other out

- Income that households save is reinjected through business investment
- Income taken out through taxes is returned through government spending

Fiscal Policy & Supply-Side Effects

- Learning Objective / Main Idea: Supply-side economists advocate reductions in tax rates to stimulate private investment and employment

How has fiscal policy been used?

- Starting new job programs to reduce unemployment & stimulate the economy
- Cuts in federal tax rates to attempt to speed up economic activity & fight unemployment
  - Giving businesses tax credits on investments allows them to deduct from their taxes some of the costs of new capital equipment; goal is to expand production & hire more workers

What about the critics?

- Some argue that tax rate cuts lead to more work, saving, and investment.
- AKA supply-side effects – affect the supply of key ingredients of economic growth

17.3: Monetarism & the Economy

Essential Question: How are monetary policy & fiscal policy different?

The Theory of Monetarism

- Learning Objective / Main Idea: Explain that monetarists favor monetary policy rather than fiscal policy to stabilize the economy.

What is monetarism?

- The theory that deals with the relationship between the amount of money the Federal Reserve places in circulation and the level of activity in the economy
  - **Monetarists** – supporters of monetarism, often associated with Milton Friedman

Milton Friedman & monetarists

- Believe that the Fed should increase the money supply at a smooth, given percentage each year
- Argue that when the amount of money in circulation expands too rapidly, people borrow more and spend more

Government Policy According to Monetarists

- Learning Objective / Main Idea: Explain – monetarists believe that the money supply should be increased at a steady rate of 3 to 5% per year for stable economic growth with low inflation.

Monetarists' beliefs

- Believe that the economy is so complex & poorly understood that the **government does more harm than good** in trying to guess about businesspeople and consumers
- **Oppose** using fiscal policy to stimulate or slow the economy
- For example, they don't think the government should operate with budget deficits each year to stimulate the economy; instead, they believe the government should **balance the federal budget**

Monetary Rule

- Monetarists' belief that the Fed should allow the money supply to grow at a smooth, consistent rate per year (3-5%) and not use monetary policy to stimulate or slow the economy
  - Steady growth in money supply with strict guidelines (or targets) is the best way to provide businesses and consumers with more certainty about the future
  - This policy would result in a controlled expansion of the economy without rapid inflation or high unemployment

Monetarists Criticism of Fiscal Policy

- Learning Objective / Main Idea: Explain the monetarists' belief that the main problem with fiscal policy is that it cannot be implemented effectively.


FISCAL POLICY & STIMULUS
8
KEYNESIAN ECONOMICS
FISCAL POLICY

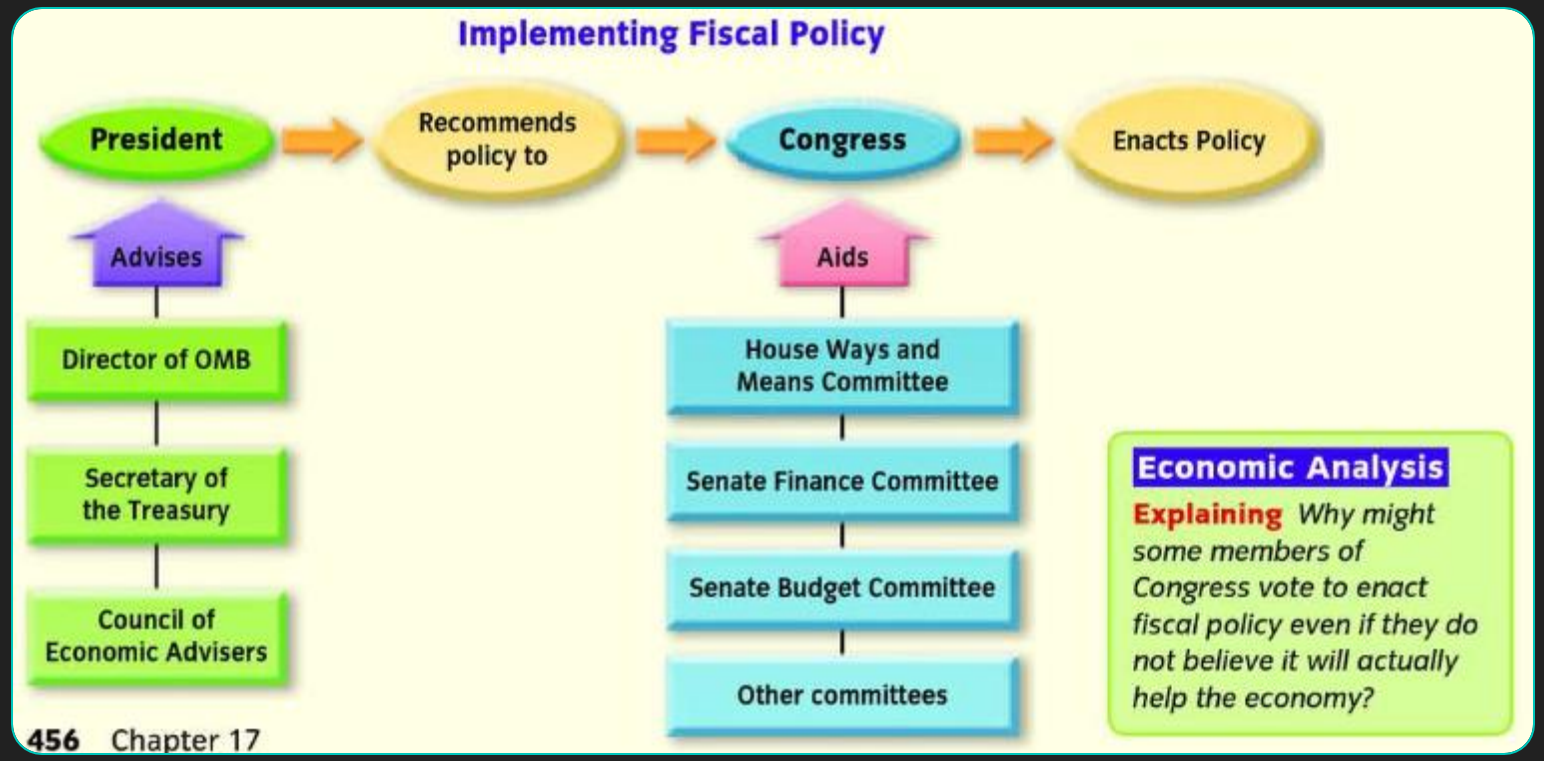
Monetarists outline 2 main reasons why the theory of fiscal policy seldom matches reality

The political process involved in implementing fiscal policy is complex

There are various **time lags** between when fiscal policy is enacted and when it becomes effective

Problem 1: no single government body designs & implements fiscal policy

- The president is advised by the Director of the OMB, the Secretary of the Treasury, AND the Council of Economic Advisers– design a desired mix of taxes & expenditures to ***recommend*** to Congress
- Congress is aided by several committees to ***enact*** the fiscal policy
- Disagreements arise between members of Congress and also between president & Congress.



Problem 2: time lags

- Even if fiscal policy could be enacted when the president wanted, there would be **time lags** – periods between the time fiscal policy is enacted and the time it becomes effective
- It could take months (or even years) for fiscal policy stimuli to cause employment to rise in the economy
- Fiscal policy designed to combat a recession might not produce results until the economy is already experiencing inflation, this worsening the situation

TO DO:

- Study for Monday's Chapter 17 quiz
- Finish Unit 3 Guided Reading Packet
- Begin to study for Unit 3 Part 2 Test (Ch 15, 16, 17)