Macroeconomics

Key Terms

1. Macroeconomics
2. Macro Goals
3. GDP
4. Nominal GDP
5. Real GDP
6. Aggregate Supply
7. Aggregate Demand
8. Cyclical Unemployment
9. Frictional Unemployment
10. Seasonal unemployment
11. Structural Unemployment
12. NRU
13. Inflation
14. Market Basket
15. CPI
16. Business Cycle
17. peak
18. contraction
19. trough
20. recovery/expansion
21. recession
22. Depression
23. Medium of Exchange
24. Store of Value
25. Unit of Accounting
26. Fed
27. FOMC
28. Board of Governors
29. Monetary Policy
30. reserve requirement
31. discount rate
32. open market operations
33. interest on reserves
34. Fiscal Policy
35. Taxes
36. Spending
37. Budget Deficit/Surplus
38. National Debt

LESSON 1: GDP

- Essential Question:
  - How can GDP be used to describe the well-being of the economy?

- How will I show I know it?
  - Be able to determine which parts of GDP different economic activities fall into.

- Econ Agenda for Unit 3-1:
  - Review Unit 2 Test Results
  - Lesson 1 Notes
  - Today’s Activity: All about GDP

Standards

SSEMA1 Illustrate the means by which economic activity is measured.

a. Identify and describe the macroeconomic goals of steady **economic growth**, **stable prices**, and **full employment**.

What is Macroeconomics?

Macroeconomics is the study of the economy as a whole.

From unit one, we learned that all economies have **three** basic goals

1. Steady Growth
2. Stable Prices
3. Full Employment

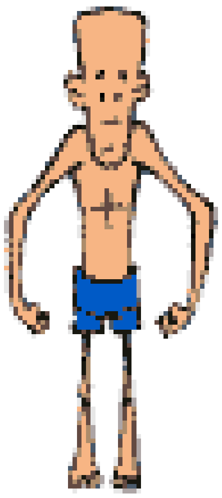
Standards

SSEMA1 Illustrate the means by which economic activity is measured.

B. Define Gross Domestic Product (GDP) as the sum of Consumer Spending, Investment, Government Spending, and Net Exports (output expenditure model).

C. Define unemployment rate, Consumer Price Index (CPI), inflation, real GDP, aggregate supply and aggregate demand and explain how each is used to evaluate the macroeconomic goals from SSEMA1a.

Goal #1
Promote Steady Growth



How does a country measure economic growth?

How do we know how well the economy is doing?

- **Economists collect statistics on production, income, investment, and savings.**

The most important measure of growth is GDP.

Gross Domestic Product (GDP) is the dollar value of all final goods and services produced within a country's borders in one year.

- **Dollar value- GDP is measured in dollars.**
- **Final Goods-GDP does not include the value of intermediate goods. Intermediate goods are goods used in the production of final goods and services.**
- **One Year-GDP measures annual economic performance.**

Four components of GDP:

1. **Consumer Spending**
   Ex: $5 Little Caesar's Pizza
2. **Investments -When businesses put money back into their own business.**
   Ex: Machinery or tools
3. **Government Spending**
   Ex: Bombs or tanks, *NOT social security*
4. **Net Exports -Exports (*X*) – Imports (*M*)**
   Ex: Value of 3 Ford Focuses minus 2 Hondas

$$\mathbf{GDP = C + I + G + X_n}$$

What does GDP tell us?

Just like calculating your own income, GDP measures how well the U.S. is doing financially.

How do you use GDP?

1. **Compare to previous years (Is there growth?)**
2. **Compare policy changes (Did a new policy work?)**
3. **Compare to other countries (Are we better off?)**

219	Marshall Islands	$ 133,500,000	2008 est.
220	Falkland Islands (Islas Malvinas)	$ 105,100,000	2002 est.
221	Nauru	$ 60,000,000	2005 est.
222	Wallis and Futuna	$ 60,000,000	2004 est.
223	Saint Pierre and Miquelon	$ 48,300,000	2003 est.
224	Montserrat	$ 29,000,000	2002 est.
225	Saint Helena, Ascension, and Tristan da Cunha	$ 18,000,000	1998 est.
226	Tuvalu	$ 14,940,000	2002 est.
227	Niue	$ 10,010,000	2003 est.
228	Tokelau	$ 1,500,000	1993 est.

*CIA Factbook 2010 Estimate

What is NOT included in GDP?

1. **Intermediate Goods**
   - **No Multiple Counting, Only <u>Final</u> Goods**
     - **EX: Price of finished car, not the radio, tire, etc.**

2. **Nonproduction Transactions**
   - **Financial Transactions (nothing produced)**
     - **Ex: Stocks, bonds, Real estate**
   - **Used Goods**
     - **Ex: Old cars, used clothes**

3. **Non-Market (Illegal) Activities**
   - **Ex: Illegal drugs, unpaid work**

Included or not Included in GDP?

For each situation, identify if it is included in GDP the identify the category C, I, G, or X_n

1. $10.00 for movie tickets
2. $5M Increase in defense expenditures
3. $45 for used economics textbook
4. Ford makes new $2M factory
5. $20K Toyota made in Mexico
6. $10K Profit from selling stocks
7. $15K car made in US, sold in Canada
8. $10K Tuition to attend college
9. $120 Social Security payment to Bob
10. Farmer purchases new $100K tractor

Included or not Included in GDP?

GDP=$7,105,010

1. $10.00 for movie tickets
2. $5M Increase in defense expenditures

X $45 for used economics textbook

4. Ford makes new $2M factory

X $20K Toyota made in Mexico

X $10K Profit from selling stocks

7. $15K car made in US, sold in Canada
8. $10K Tuition to attend college

X $120 Social Security payment to Bob

10. Farmer purchases new $100K tractor

How can you figure out which is the most popular movie of all time?

What is the problem with this method?

Nominal Box Office Receipts

Rank	Title	Studio	Lifetime Gross
1	*Avatar*	20th Century Fox	$749,710,176
2	*Titanic*	Paramount Pictures	$600,788,188
3	*The Dark Knight*	Warner Bros.	$533,345,358
4	*Star Wars Episode IV: A New Hope*	20th Century Fox	$460,998,007
5	*Shrek 2*	DreamWorks	$441,226,247
6	*E.T. the Extra-Terrestrial*	Universal Pictures	$435,110,554
7	*Star Wars Episode I: The Phantom Menace*	20th Century Fox	$431,088,301
8	*Pirates of the Caribbean: Dead Man's Chest*	Walt Disney Pictures	$423,315,812
9	*Spider-Man*	Columbia Pictures	$403,706,375
10	*Transformers: Revenge of the Fallen*	Paramount Pictures/DreamWorks	$402,111,870
11	*Star Wars Episode III: Revenge of the Sith*	20th Century Fox	$380,270,577
12	*Toy Story 3*	Walt Disney Pictures	$379,529,000
13	*The Lord of the Rings: The Return of the King*	New Line Cinema	$377,027,325
14	*Spider-Man 2*	Columbia Pictures	$373,585,825
15	*The Passion of the Christ*	Newmarket Films	$370,782,930

How can you figure out which is the most popular movie of all time?

Real Box Office Receipts (adjusted for inflation)

Rank	Title	Year
1	*Gone With The Wind*	1939
2	*Star Wars*	1977
3	*The Sound of Music*	1965
4	*E.T. the Extra-Terrestrial*	1982
5	*The Ten Commandments*	1956
6	*Titanic*	1997
7	*Jaws*	1975
8	*Doctor Zhivago*	1965
9	*The Exorcist*	1973
10	*Snow White and the Seven Dwarfs*	1937
11	*One Hundred and One Dalmatians*	1961
12	*Star Wars Episode V: The Empire Strikes Back*	1980
13	*Ben-Hur*	1959
14	*Avatar*	2009
15	*Star Wars Episode VI: Return of the Jedi*	1983
16	*The Sting*	1973
17	*Raiders of the Lost Ark*	1981
18	*Jurassic Park*	1993
19	*The Graduate*	1967

The Problem with GDP

If a country's GDP increased from $4 Billion to $5 Billion in one year, is the country experiencing economic growth?

Did the country definitely produce 25% more products?

What is Inflation?

- **A rising general level of prices**

EX: If apples are the only thing being produced

Year 1: 10 apples at $1 each; GDP = $10

Year 2: 10 apples x $1.25; GDP = $12.50

GDP is rising, but country is worse off!

Real vs. Nominal GDP

Nominal GDP is GDP measured in current prices. It does not account for inflation from year to year.

Real GDP is GDP expressed in constant, or unchanging, dollars.

Real GDP adjusts for inflation.

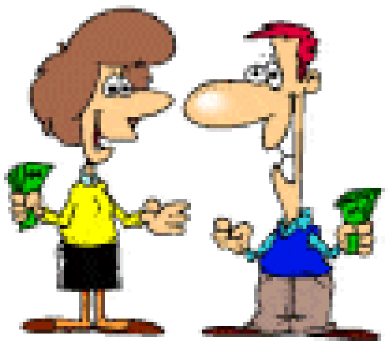
REAL GDP IS THE BEST MEASURE OF ECONOMIC GROWTH!

Standards

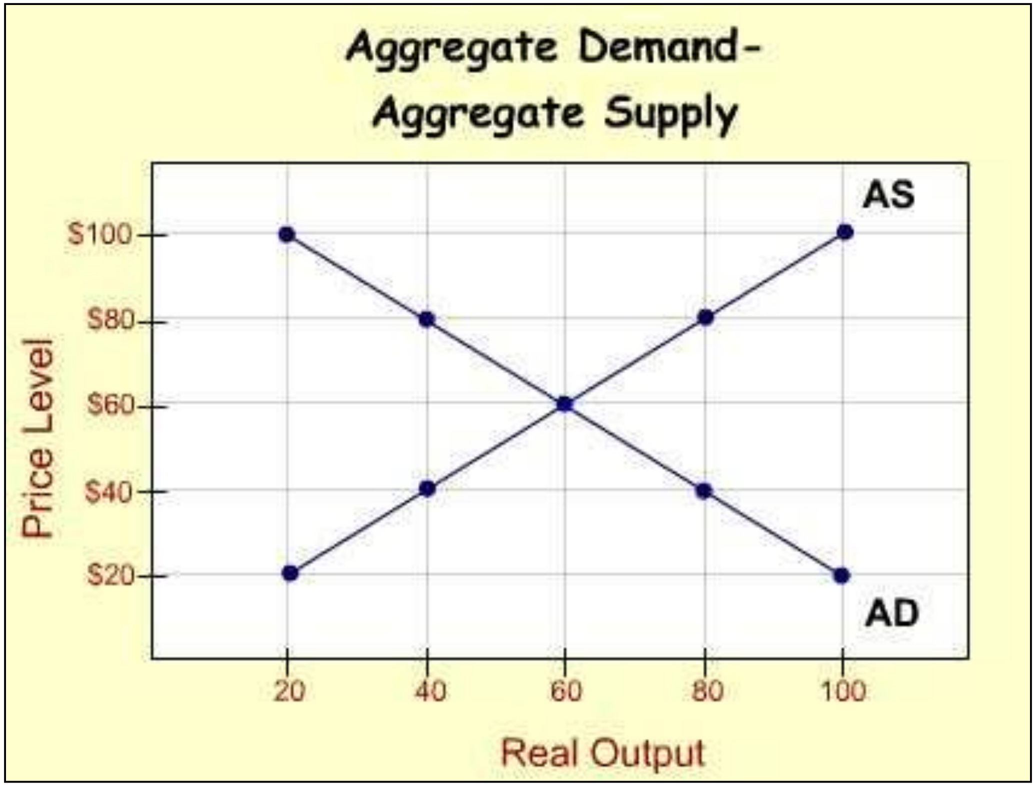
SSEMA1 Illustrate the means by which economic activity is measured.

C. Define unemployment rate, Consumer Price Index (CPI), inflation, real GDP, **aggregate supply and aggregate demand** and explain how each is used to evaluate the macroeconomic goals from SSEMA1a.

Demand

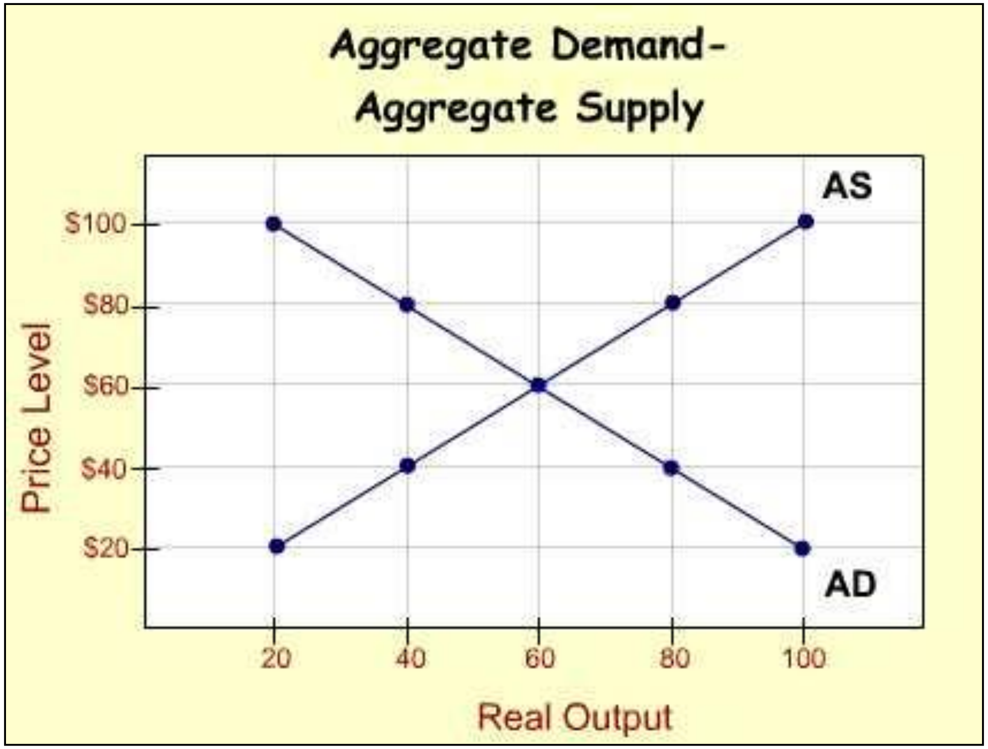


Aggregate Demand



Influences on the GDP—Aggregate Demand

Aggregate Demand—the amount of ALL goods and services that will be purchased at all possible prices.



Influences on the GDP—Aggregate Supply

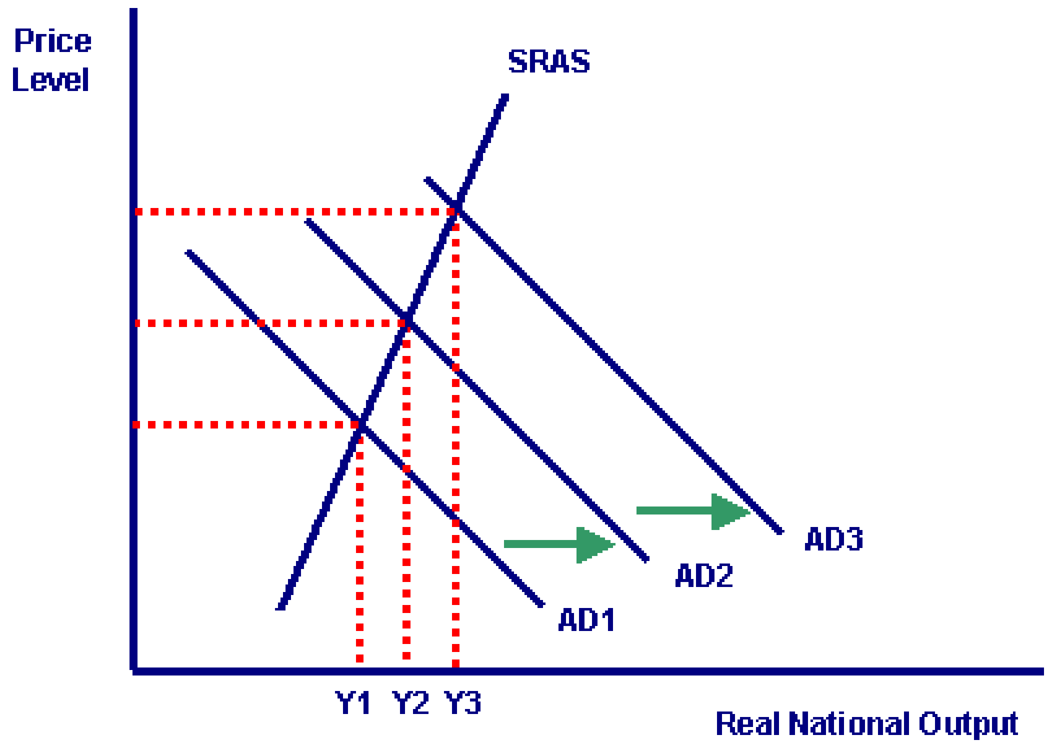
- **Aggregate Supply**—the total amount of all goods and services available at all possible prices.
- The AS shows us GDP

How is Ag Supply/Demand Used to Evaluate the Economic Goals?

- Aggregate Supply and Demand shifts show Economic Growth and inflation as Demand Increases
- Aggregate Supply and Demand shifts show changes in unemployment as either Supply or Demand Increase/decrease.

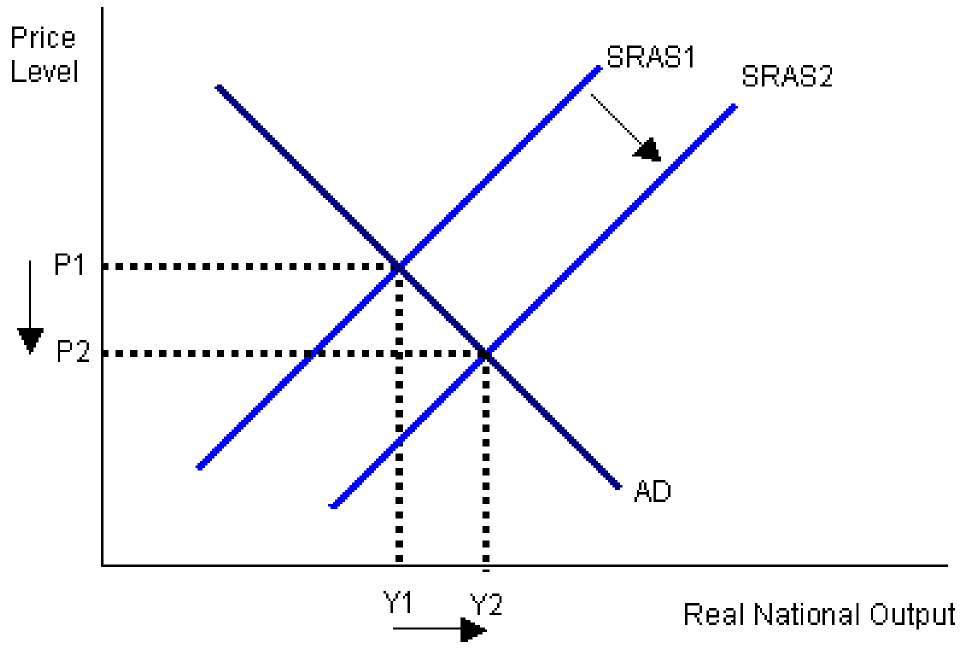
Aggregate Supply and Demand Practice

- Can you explain what is happening?
- Overall demand for goods are increasing (economic growth), AND price levels are rising (inflation)



Aggregate Supply and Demand Practice

- Can you explain what is happening?
- Overall supply is increasing (economic growth), AND price levels are lowering (deflation)



Activity 3-1

All About GDP

LESSON 2: UNEMPLOYMENT

- Essential Question:
  - Why do Structural and Frictional Unemployment always exist, while cyclical unemployment is only temporary?
- How will I show I know it?
  - Be able to determine if someone is unemployed

- Econ Agenda for Unit 3-2:
  - Quick Assessment
  - Lesson 2 Notes
  - Today's Activity: Am I unemployed?

Standards

SSEMA1 Illustrate the means by which economic activity is measured.
C. Define **unemployment rate**, Consumer Price Index (CPI), inflation, real GDP, aggregate supply and aggregate demand and explain how each is used to evaluate the macroeconomic goals from SSEMA1a.

e. Identify **seasonal**, **structural**, **cyclical**, and **frictional** unemployment.

Goal #2
Limit Unemployment

Four Types of Unemployment

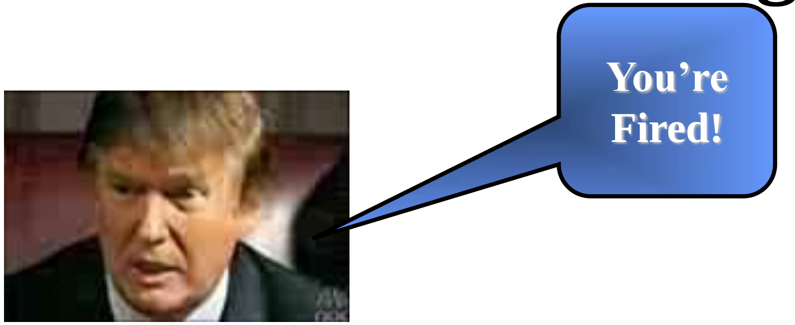
4 Types of Unemployment

#1. Frictional Unemployment

- "Temporarily unemployed" or being between jobs.
- Individuals are qualified workers with transferable skills but they aren't working.

Examples:

- High school or college graduates looking for jobs.
- Individuals that were fired and are looking for a better job.



4 Types of Unemployment

#2 Seasonal Unemployment

•This is a specific type of frictional unemployment which is due to time of year and the nature of the job.

•These jobs will come back

Examples:

•Professional Santa Clause Impersonators
•Construction workers in Michigan

4 Types of Unemployment

#3. Structural Unemployment

- **Changes in the structure of the labor force make some skills obsolete.**
- **Workers <u>DO NOT</u> have transferable skills and these jobs will never come back.**
- **Workers must learn new skills to get a job.**
- **Often causes by technological advances**

Examples:

- **VCR repairmen**
- **Carriage makers**

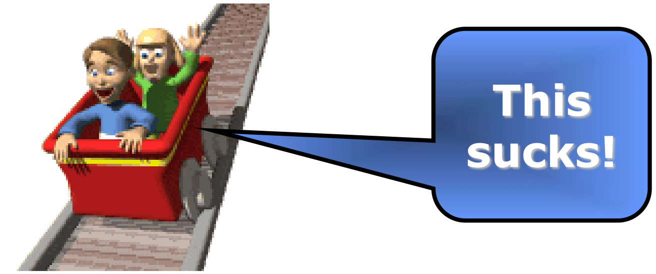
4 Types of Unemployment

#4 Cyclical Unemployment

- Unemployment that results from economic downturns (recessions).
- As demand for goods and services falls, demand for labor falls and workers are fired.

Examples:

- Steel workers laid off during recessions.
- Restaurant owners fire waiters after months of poor sales due to recession.



The Natural Rate of Unemployment

Three of the of the four types of unemployment are unavoidable:

- **Frictional unemployment**
- **Seasonal unemployment**
- **Structural unemployment**

- **Together they make up the natural rate of unemployment (NRU).**

We are at full employment if we have only the natural rate of unemployment.

The Natural Rate of Unemployment

Full employment means <u>NO</u> Cyclical unemployment!

Economists generally agree that an unemployment rate of around 4 to 6 % is full employment.

4-6% Unemployment = NRU

Unemployment Review

For each of the following scenarios, determine which type of unemployment it would fall under.

Question 1

You work at ski resort. The weather has warmed up, the snow has melted. There are no more skiers. Your services are no longer needed.

Question 2

You have worked at Lockheed Martin for 22 years. You have been laid off because a computer will now perform your job function.

Question 3

You have been working as a brand rep at Abercrombie and Fitch for the past 4 years. You decide it is time to use your Engineering degree so you quit and start applying entry level positions with aeronautics and defense contractors.

Question 4

You were working for UPS in their corporate office. They laid you off because of the recession.

Question 5

You quit your job at Taco Bell because you couldn’t stand your boss and you showed him he was #1 as you left.

Question 6

Your mom lost her job as an administrative assistant when her company outsourced jobs to India.

Question 7

You sell concessions at the Georgia Dome. The Falcons didn't make the playoffs so you no longer have a job.

Question 8

Your boss claims the profits are down and doesn’t see the future to be any brighter. He is sorry but he has to let you go.

Question 9

You lost your job a year ago working in at Kennestone Hospital. After looking for a new job for 3 months, you have since given up and spend your days depressed laying on the couch watching reruns of Jersey Shore.

3-2 Activity

- After receiving you job card determine if you are unemployed (if so what kind) or not.
- Go stand by the sign for your unemployment type.

What is the unemployment rate in the room.

Is this higher or lower than the NRU?

Why can the unemployment rate be misleading?

LESSON 3: INFLATION

- Essential Question:
  - How can the inflation rate be used to describe the well-being of the economy?
- How will I show I know it?
  - Be able to determine who is helped and hurt by inflation.
- Econ Agenda for Unit 3-3:
  - Quick Assessment
  - Lesson 3 Notes
  - Today’s Game: The Land of the Thirsty

Standards

SSEMA1 Illustrate the means by which economic activity is measured.

B. Define unemployment rate, **Consumer Price Index (CPI), inflation**, real GDP, aggregate supply and aggregate demand and explain how each is used to evaluate the macroeconomic goals from SSEMA1a.

D. Give examples of who benefits and who loses from **unanticipated inflation**.

Goal #3
LIMIT INFLATION

Country and Time-
Zimbabwe, 2008
Annual Inflation Rate-
79,600,000,000%
Time for Prices to Double-
24.7 hours

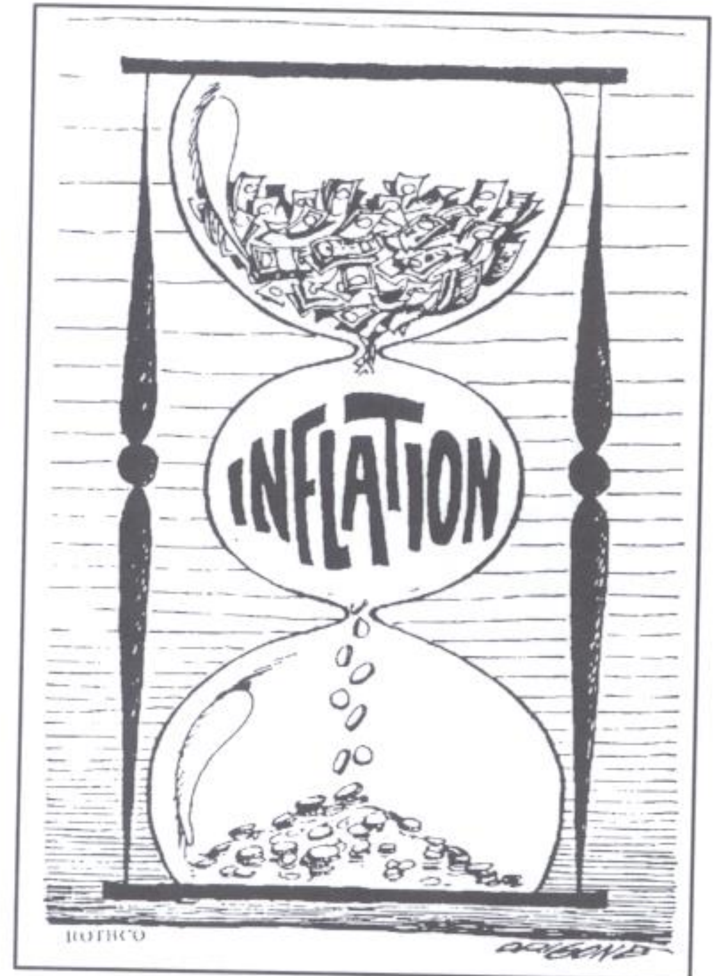
What is Inflation?

Inflation is rising general level of prices

Inflation reduces the "purchasing power" of money

Examples:

- **It takes $2 to buy what $1 bought in 1982**
- **It takes $6 to buy what $1 bought in 1961**



- **When inflation occurs, each dollar of income will buy fewer goods than before.**

How is Inflation measured?

The government tracks the prices of the same goods and services each year.

- **This "market basket" is made up of about 300 commonly purchased goods**
- **The Inflation Rate-% change in prices in 1 year**
- **They also compare changes in prices to a given base year (usually 1982)**
- **Prices of subsequent years are then expressed as a percentage of the base year**
- **Examples:**
  - **2005 inflation rate was 3.4%**
  - **U.S. prices have increase 98.3% since 1982 (base year).**
  - **The inflation rate in Bolivia in 1985 was 50,000%**
    - **This is called Hyperinflation**
    - **A $25 meal today would cost $12,525 a year later**

Consumer Price Index (CPI)

The most commonly used measurement inflation for consumers is the Consumer Price Index

Here is how it works:

- **The base year is given an index of 100**
- **To compare, each year is given an index # as well**

$$\text{CPI} = \frac{\text{Price of market basket}}{\text{Price of market basket in base year}} \times 100$$

1997 **Market Basket: Movie is $6 & Pizza is $14**
Total = $20 (Index of Base Year = 100)

2009 **Market Basket: Movie is $8 & Pizza is $17**
Total = $25 (Index of 125)

- **This means inflation increased 25% b/w '97 & '09**
- **Items that cost $100 in '97 cost $125 in '09**

Measuring Inflation

Consumer Price Index (CPI)

The Land of the Thirsty

- Today you will have the opportunity to buy a coke.
- Your ‘salary’ is $10.
- A coke costs the market price.
- You may either save your money for a later round, or borrow money from someone else. However, you must pay them back double what you borrowed.

Activity 3-3 Round 2

- Today you will have the opportunity to buy a coke.
- Your ‘salary’ is now $50.
- A coke costs the market price
- You may either save your money for a later round, or borrow money from someone else. However, you must pay them back double what you borrowed.

Round 2 Questions

- What happened to price?
- Was the population better off; that is, did people's standard of living improve?

Activity 3-3 Round 3

- Today you will have the opportunity to buy a coke.
- Your ‘salary’ is now $100.
- A coke costs the market price
- You may either save your money or attempt to purchase.
- Pay back any debt you have.

Round 3 Wrap up

- What happened to price?
- Was the population better off?
- Did more inflation occur? Why?
- Who was helped (got a coke) because of inflation?
- Who was hurt because of inflation?

Is Inflation Good or Bad?

Identify which people are helped and which are hurt by unanticipated inflation?

1. A man who lent out $500 to his friend in 1960 and is still waiting to be paid back.
2. A tenant who is charged $850 rent each year.
3. An elderly couple living off fixed retirement payments of $2000 a month
4. A man that borrowed $1,000 in 1995 and paid it back in 2006
5. A women who saved a paycheck from 1950 by putting it under her mattress

Make a T-Chart

Hurt by Inflation	Helped by Inflation
• Lenders-People who lend money (at fixed interest rates) • People with fixed incomes • Savers	• Borrowers-People who borrow money • A business where the price of the product increases faster than the price of resources

LESSON 4: BUSINESS CYCLE

- Essential Question:
  - How do business cycles affect my personal income?

- How will I show I know it?
  - Complete Activity 3-4

- Econ Agenda for Unit 3-4:
  - Quick Assessment
  - Lesson 4 Notes
  - Today's Activity: Draw the Business Cycle

Standards

SSEMA1 Illustrate the means by which economic activity is measured.

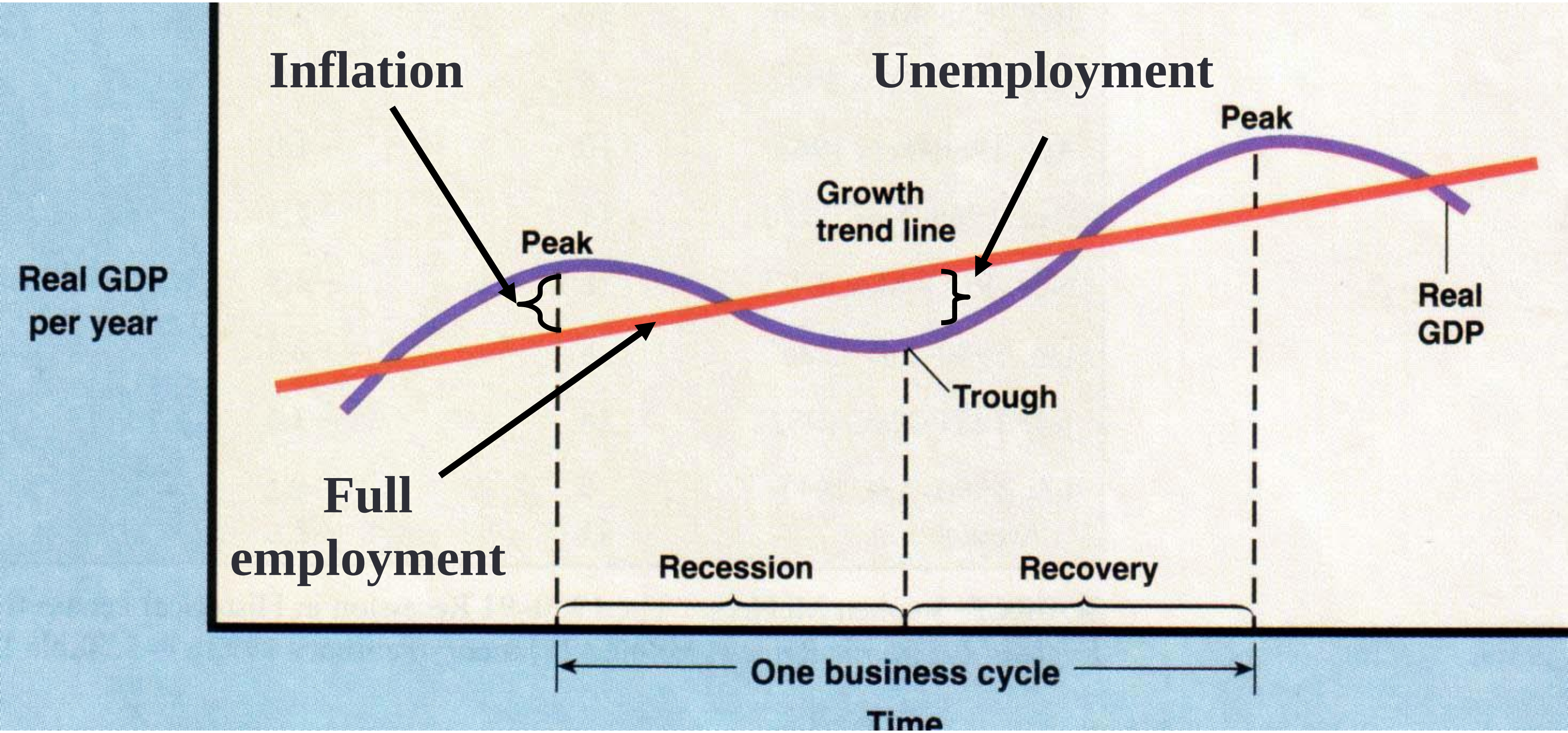
E. Define the stages of the business cycle, including: **peak**, **contraction**, **trough**, **recovery/expansion** as well as **recession** and **depression**.

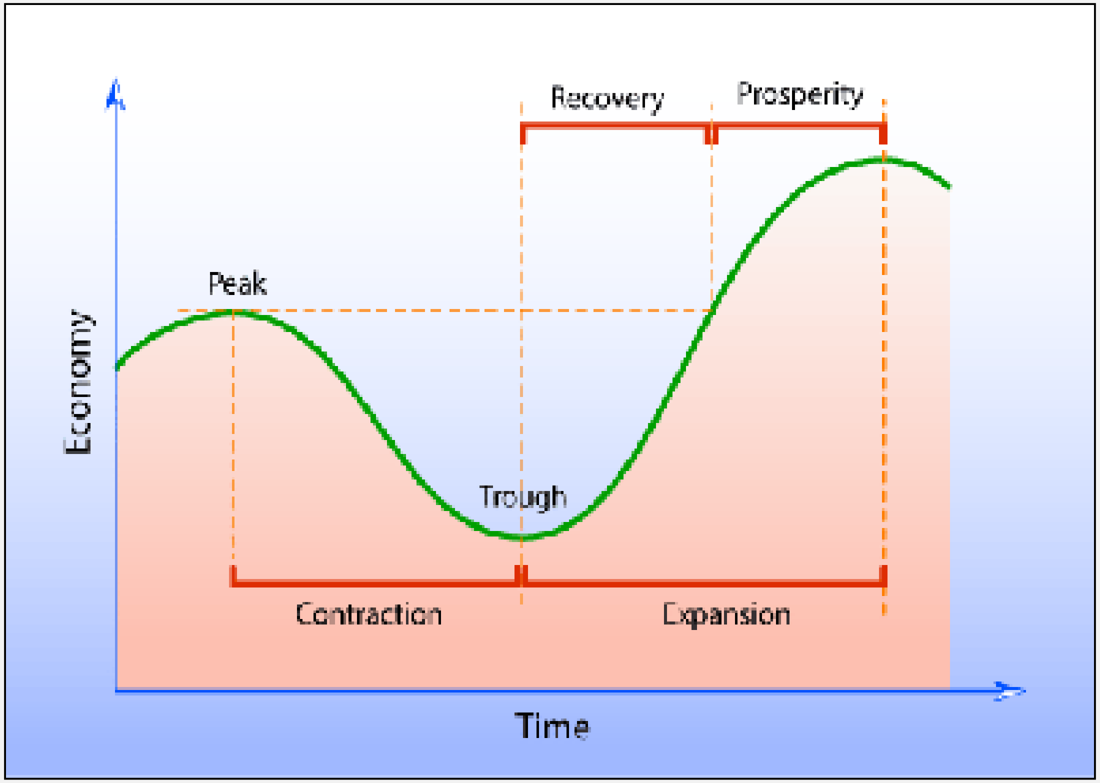
THE BUSINESS CYCLE

BUSINESS CYCLES

- Business cycles are fluctuations (up and down changes) in a market's activity.
- These changes are measured by increases and decreases in the real GDP.
- These ups and downs can last a few weeks, months, or years.
- This is demonstrated in our 4th Graph…The Business Cycle Graph

THE BUSINESS CYCLE





PHASES OF THE BUSINESS CYCLE

- **Expansion**—a period of economic growth (rising GDP)…
- **Peak**—when real GDP stops rising…
- **Contraction**—a period of falling GDP…
- **Trough**—bottoming out. When GDP stops falling.

TYPES OF CONTRACTION

- Recession—when GDP falls for two consecutive quarters…
- Depression—a long & severe recession…

…with high unemployment & low production.

Draw the Business Cycle

- Draw the business cycle and label/do the following
    1. Real GDP – Define it
    2. Time
    3. Inflation – Define it, explain how it is measured
    4. Unemployment – List and define the 4 types
    5. Recession – Under it show the AD/AS shift
    6. Recovery – Under it show the AD/AS shift
    7. Trough
    8. Peak

LESSON 5: STRUCTURE OF THE FED

- Essential Question:
  - What role does money play in an economic system?
- How will I show I know it?
  - Complete Activity 3-5
- Econ Agenda for Unit 3-5:
  - Unit 3 Quiz 1
  - Today’s Activity: 3-2 Guided Reading
  - Lesson 5 Notes

Standards

SSEMA2 Explain the role and functions of the Federal Reserve System.

a. Explain the roles/functions of money as a medium of exchange, store of value, and unit of account/standard of value.

b. Describe the organization of the Federal Reserve System (12 Districts, Federal Open Market Committee (FOMC), and Board of Governors).

What is Money

- Money in the United States economy primarily refers to the coins, currency, and checkable (demand) deposits available to consumers and producers to make purchases
- There are 3 Roles of money
  - Medium of exchange
  - Store of Value
  - Unit of Accounting

Medium of Exchange

- When we use money as a **medium of exchange**, we are using it to facilitate transactions

Store of Value

- Money can also serve as a **store of value**. You can sell something, such as your labor, and then save that money to buy something later

Unit of Accounting

- The role of money as a **unit of account/standard of value** means money can be used to compare the values of goods and services in relation to each other

Money is a 'Unit of Account'

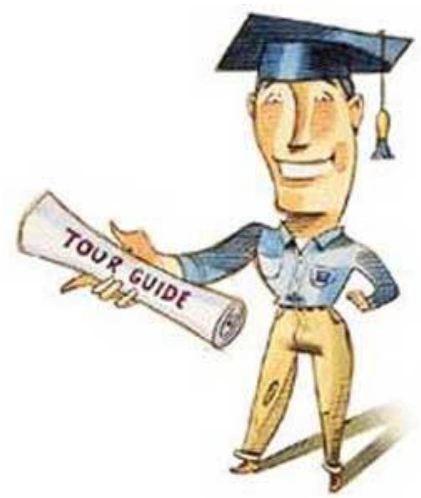
'Unit of Account' means:

That money can be used to set the value of items.

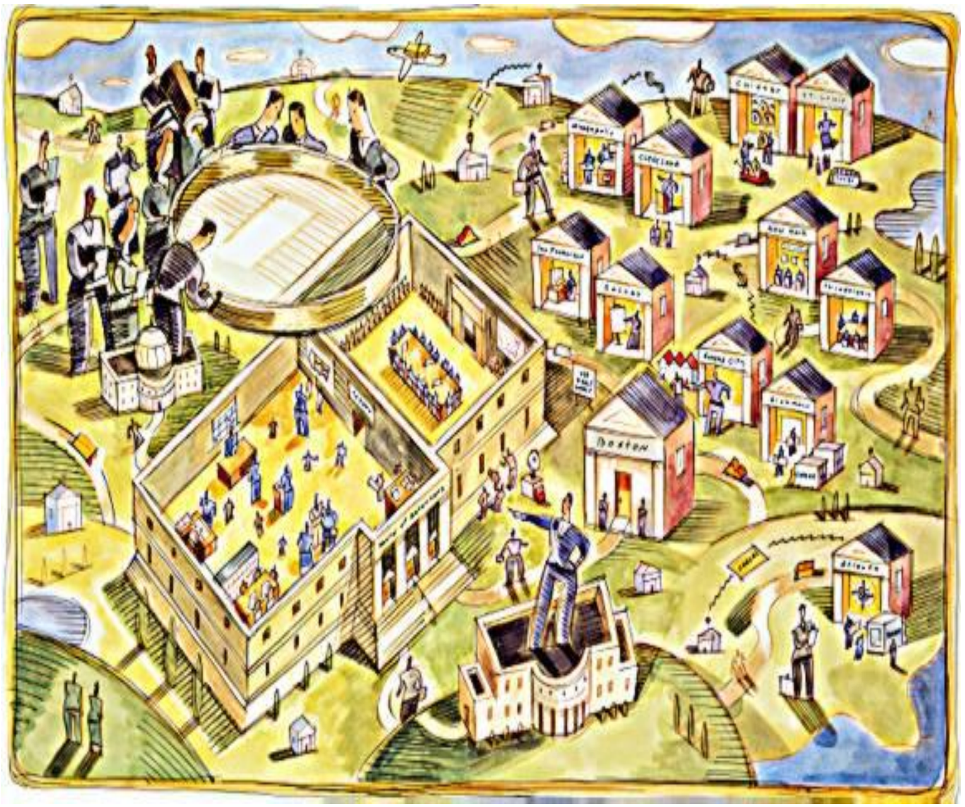
Who controls Money?

- The amount of money in the U.S. is controlled by an institution called the **Federal Reserve**, or FED

The Federal Reserve In Action



What is the Fed?

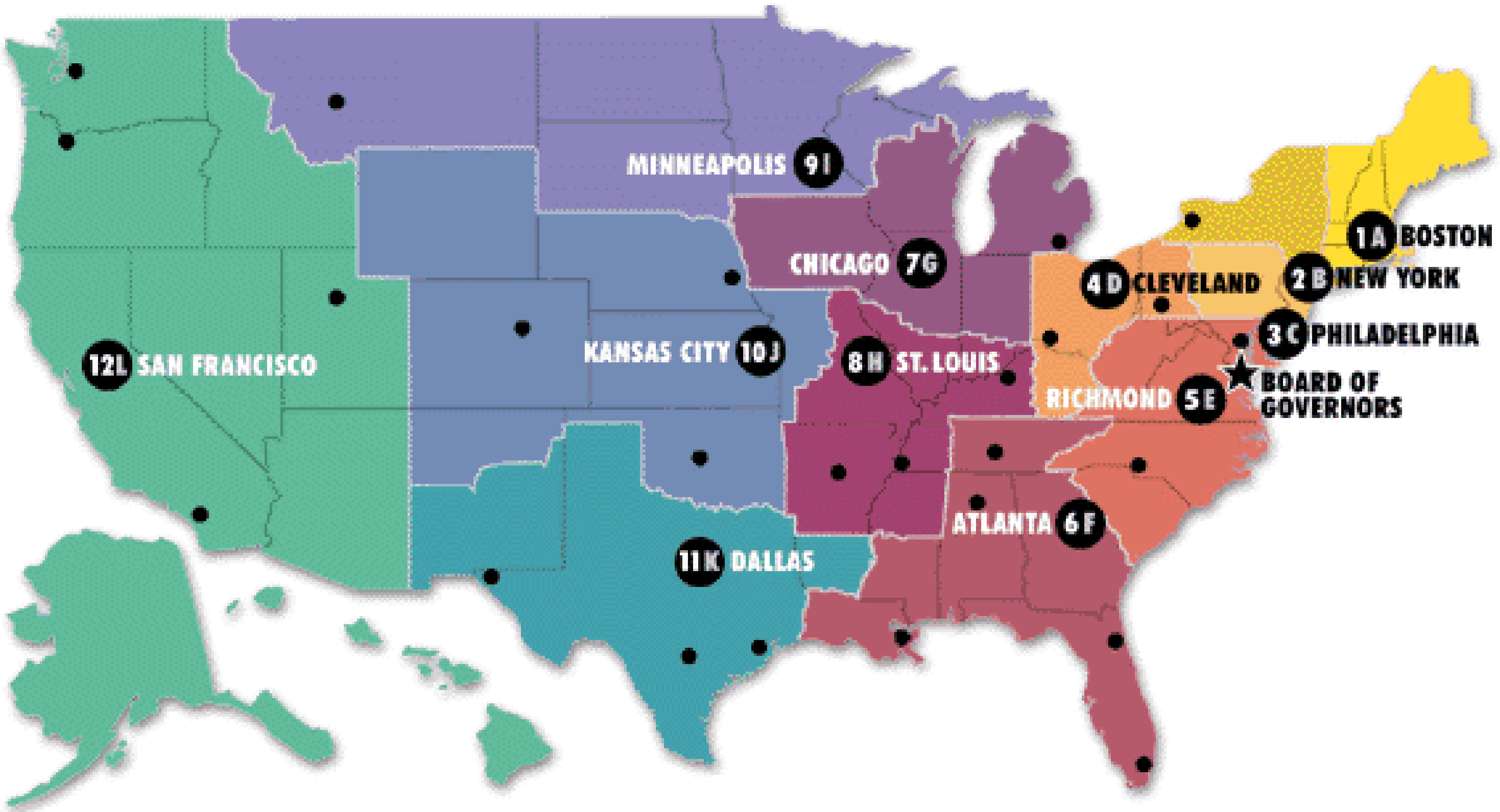


- Central bank of the United States
- Established in 1913
- Purpose is to ensure a stable economy for the nation

Federal Reserve System Structure

- Board of Governors
- 12 Reserve Banks
- Federal Open Market Committee

Where is my Fed?



Federal Reserve Banks

- Distribute the nation's currency and coin
- Supervise and regulate member banks and bank holding companies
- Serve as banker for the U.S. Treasury
- Contribute to **monetary policy**making through participation in the FOMC

Federal Open Market Committee

- Sets and directs U.S. monetary policy
- Seven governors
- Five presidents (New York and four others on a rotating basis)
- Nonvoting presidents participate fully
- Final interest rate decision is made by the 12-member Federal Open Market Committee (FOMC)

LESSON 6: MONETARY POLICY

- Essential Question:
  - How does the money supply effect price levels?

- How will I show I know it?
  - Complete Activity 3-6

- Econ Agenda for Unit 3-6:
  - Quick Assessment
  - Lesson 6 Notes
  - Today's Game: Chair the Fed

STANDARDS

SSEMA2 Explain the role and functions of the Federal Reserve System.

c. Define **monetary policy**.

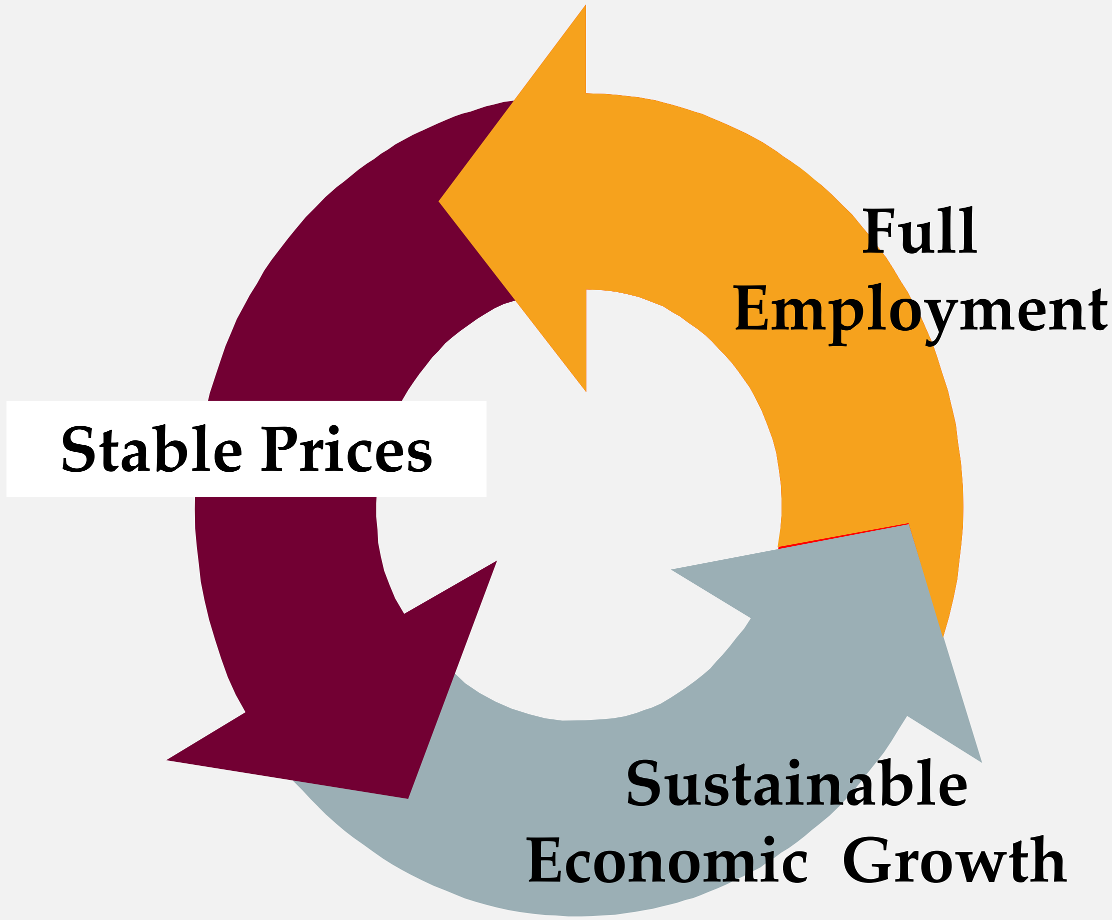
d. Define the tools of monetary policy including **reserve requirement**, **discount rate**, **open market operations**, and **interest on reserves**.

e. Describe how the Federal Reserve uses the tools of monetary policy to promote its dual mandate of price stability and full employment, and how those affect economic growth.

MONETARY POLICY

- Policy changes affect the nation's supply of money and credit.
- Actions have real short- and long-term effects on the economy.

GOALS OF MONETARY POLICY



KEY TOOLS OF MONETARY POLICY

- **Discount Rate**
  - The interest rate charged by the Federal Reserve to banks that borrow on a short-term (usually overnight) basis
- **Reserve Requirements**
  - The amount of money banks must keep on reserve at the Fed
- **Open Market Operations**
  - Buying and selling Treasury securities between the Fed and selected financial institutions in the open market
  - Most important tool; directed by the FOMC
- **Interest on Excess Reserves**
  - Money paid to banks for holding on to money instead of lending it out.

EFFECTS OF MONETARY POLICIES

- All monetary tools either increase of decrease the money supply
- If the money supply goes **UP**:
  - Inflation Increases
  - Unemployment goes down
  - The Economy Grows
- If the money supply goes **DOWN**:
  - Inflation decreases
  - Unemployment goes up
  - The Economy slows

KEY TOOLS OF MONETARY POLICY

- **Discount Rate**
  - Lowering the rate encourages bank to borrow – Increasing $$ Supply
  - Raising the rate will make bank borrow less – decreasing the $$ supply
- **Reserve Requirements**
  - Lowering the amount means banks have MORE money to lend out – decreasing the $$ supply
  - Raising the amount means banks have LESS money to lend out – decreasing the $$ supply

KEY TOOLS OF MONETARY POLICY

- **Open Market Operations**
  - Buying Government Bonds and Securities puts MORE money into the market
  - Selling Government Bonds and Securities takes money OUT of the market
- **Interest on Excess Reserves**
  - Higher rates encourage banks to lend LESS - decreasing the $$ supply
  - Lower rates encourage banks to lend MORE - increasing the $$ supply

BASED ON THE NOTES, FILL IN THE CHART

Fed Action	Inflation	Unemployment	Economic Growth

CHAIR THE FED

- https://sffededucation.org/chairthefed/default.html?startover=1

- Were you surprised by the outcome of the game? Why?•
- How many times did your team disagree with the majority decision? Why?•
- What was interesting in the Datasheet information? Were there any clues for why we did or did not get reappointed?•
- How was the information different in "Breaking News" and "News Brief"?•
- What other data or information would have been helpful?•
- What would you do differently next time you play the game?

LESSON 7: FISCAL POLICY

- Essential Question:
  - How does tax policy affect household spending?
- How will I show I know it?
  - By analyzing documents to answer the DBQ prompt.
- Econ Agenda for Unit 3-7:
  - Quick Assessment
  - Lesson 7 Notes
  - Today's Activity: National Debt DBQ

STANDARDS

SSEMA3 Explain how the government uses fiscal policy to promote price stability, full employment, and economic growth.

a. Define **fiscal policy**.
b. b. Explain the effect on the economy of the government's taxing and spending decisions in promoting price stability, full employment, and economic growth.
c. c. Explain how government budget **deficits** or **surpluses** impact **national debt**.

FISCAL POLICY

- Def. Government decisions on spending and taxation that are intended to improve or maintain the economy.

- Because the government is so large and has such an impact on business, the decisions it makes has a HUGE influence on the economy.

WHO MAKES FISCAL POLICY?

- Congress and the President make fiscal policy through the federal budget.

FISCAL POLICY AND THE ECONOMY

- The total level of government spending can be changed to help increase or decrease the output of the economy

- Expansionary Policies: Policies that try to increase the output of the economy
- Contractionary Policies: Policies that try to decrease the output of the economy

EXPANSIONARY POLICIES

- During a contraction or recession, the government can do two things:

1. **Decrease Taxes**

Or

2. **Increase Spending**

DECREASING TAXES

1. Gives people more money to spend
2. More money = more demand
3. More demand = more production
4. More production = more jobs
5. More jobs = more demand etc. etc.

INCREASE SPENDING

1. Increases demand for goods
2. More demand = more production
3. More production = more jobs
4. More jobs = more demand etc. etc.

WHO FAVORS WHICH POLICY

- Decreasing Taxes
- Favored by Republicans

- Increase Spending
- Favored by Democrats

CONTRACTIONARY POLICIES

- During a period of excessive inflation (during a period of expansion), the government can do two things:

1. **Increase Taxes**

Or

2. **Decrease Spending**

INCREASE TAXES

1. People have less money to spend
2. Less money = less demand
3. Less demand = lower inflation

DECREASE SPENDING

1. Less money in economy
2. Less money = less demand
3. Less demand = lower inflation

WHO FAVORS WHICH POLICY?

Trick Question! Neither party favors Contractionary Fiscal Policies!!!

This is one of the problems with Fiscal Policy

PROBLEM WITH FISCAL POLICY

1. It is unpopular to raise taxes or cut government spending. So, elected officials worried about re-election rarely do either.

Ex. In 1984, Walter Mondale ran for president saying a slight tax increase would help equalize the U.S. economy. Ronald Regan defeated him in one of the biggest landslides in U.S. history!

PROBLEMS WITH FISCAL POLICY

2. If the government cuts taxes, they have less money to spend or they go into debt,

The federal debt is in the **trillions** of dollars, so the government has to borrow money by selling bonds. These bonds have to be paid back with interest, costing the government more money!

NATIONAL DEBT

- A **Budget Deficit** occurs in the federal government's budget when the tax revenue received for a given fiscal year is less than the amount of spending done by the government during that year.
- A **Budget Surplus** exists when the amount of income received exceeds the amount of expenses paid.
- The **National Debt** for a country is the accumulation of annual deficits over the years plus any interest accrued on the money borrowed
- Deficits INCREASE the National Debt, Surpluses DECREASE the National Debt

HOW MUCH SHOULD I WORRY ABOUT THE NATIONAL DEBT?

- In your groups, analyze the documents in the folder.
- Answer the questions
- On a large poster sheet. Create two buckets, reasons to worry, reasons not to worry.
- Create a 1-2 paragraph answer to the question.

LESSON 8: REVIEW DAY

- Essential Question:
  - What macroeconomics concepts do I still not understand?

- How will I show I know it?
  - Passing the Macro Touchstone

- Econ Agenda for Unit 3-8:
  - Cobb County Macro Touchstone Quiz
  - Review Touchstone Results
  - Today's Homework: STUDY!!!!!

LESSON 9: TEST DAY

- Essential Question:
  - What have I learned this unit?

- How will I show I know it?
  - Pass the Unit 3 exam with at least an 80%

- Econ Agenda for Unit 3-9:
  - Today's Activity: Unit 3 Exam
  - **After you finish the exam, complete the 4.1 reading.**