



## ECONOMIC POLICY 101



**Directions** – You will research economic policy usually a variety of sources, and define the terms below.

- *Magruder’s* textbook (Ch 16 *Financing Government*, glossary, etc.)
- Online sources

### I. Economics: Basic Economic Tools and Theories

Economic Term	Definition
<i>Supply and Demand</i>	<ul style="list-style-type: none"> <li>• Demand = how much (quantity) of a product or service is desired by buyers;</li> <li>• Supply = how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price.</li> <li>• What’s the relationship between supply, demand and the price of a good or service? <i>The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand.</i></li> </ul>
<i>Economic Policy</i>	Actions the government takes in the economy ex: taxes, government spending, adjusting interest rates
<i>Fiscal Policy</i> (p. 474)	Major tool used by the federal government to achieve economic goals and consists of taxing and spending by the government.
<i>Keynesian Economics or “Demand-Side” Economics</i> (p. 464)	The view that government should influence the economy especially during a depression or recession through a series of government spending and jobs programs to stimulate the economy and put people back to work. What President used Keynesian economics by launching the New Deal during the Great Depression? <i>FDR</i>
<i>Supply-side Economics “Reaganomics”</i>	The view that tax cuts and deregulation of business increases the supply of money in private hands which stimulates the economy. What President is credited with championing supply-side economics? <i>Ronald Reagan</i>
<i>Monetary Policy</i> (p. 475)	Involves the money supply and availability of credit primarily by raising and lower interest rates Who carries out Monetary Policy? <i>Federal Reserve Board a.k.a. The Fed</i>

### II. Where does the Government get its revenues i.e. taxes?

Type of Tax	Definition	Examples
<i>Progressive Tax</i> (p. 459)	The higher one’s income, the higher the tax rate, or percentage of tax paid; wealthy people pay a higher tax rate than the middle class.	Federal income tax
<i>Individual Income Tax</i> (p. 459)	A tax levied on the income of individuals and/or corporations.	You, me
<i>Corporation Income Tax</i> (p. 460)	Each corporation must pay a tax on its net income, that is, on all of its earnings above the costs of doing business. The corporate tax is the most complicated of all federal taxes because of the many deductions allowed.	Walmart’s taxes
<i>Payroll (Entitlement) Tax</i> (p. 460)	A tax imposed on nearly all employers and their employees, and on self-employed persons—the amounts owed by employees withheld from their paychecks	Social Security (FICA) Medicare
<i>Regressive Tax</i> (p. 461)	A tax levied at a flat rate, without regard to the level of a taxpayer’s income or ability to pay them; lower income people pay higher % than do higher income	Sales tax
<i>Excise Tax</i> (p. 461)	A tax laid on the manufacture, sale, or consumption of goods and/or the performance of services; consumer tax on a specific kind of merchandise a.k.a. sales tax	Gasoline, tax on purchase of a car
<i>Estate Tax</i> (p. 461-2)	A levy imposed on the assets of one who dies; “death tax”	When your grandparent dies

### III. Why does the government borrow money?

Budget Term	Definition
<i>Budget Deficit</i> (p. 463)	The yearly shortfall between revenue and spending; difference between revenues raised and expenditures of government including interest borrowed in any 1 yr
<i>Budget Surplus</i> (p. 463)	More income than spending.
<i>National (Public) Debt</i> (p. 465)	All of the money borrowed by the government and not yet repaid, plus the accrued interest on that money; also called the national debt or federal debt.
<i>Federal Budget</i> (p. 469)	An important document that is a detailed estimate of federal income and spending in a given fiscal year.

### IV. Where does the government spend its money?

Type of Spending	Definition
<b><i>Mandatory or “Uncontrollable Spending” (p. 468)</i></b>	Spending that Congress and the President have no power to change directly; authorized by law, not 13 annual appropriations bills; fed spending uncontrollable
<i>1) Interest on the Debt</i>	Mandatory payment on the interest on the national debt
<i>2) Entitlements</i> (p. 467)	A benefit that federal law says must be paid to all those who meet the eligibility requirements, e.g., Medicare, food stamps, and veterans’ pension.
<i>a) Social Security</i>	Combination of entitlement programs paid for by employer & employee; includes: retirement, health insurance, support for disabled workers, children of deceased parents
<i>b) Medicare</i>	National health insurance program for the elderly and disabled
<i>c) Medicaid</i>	Federal program that provides medical benefits for low-income persons
<b><i>Discretionary or “Controllable Spending” (p. 468)</i></b>	Most specific items in the federal budget are controllable, that is Congress and the President can decide each year just how much will be spent on many of the things the federal government does (examples: national parks, highway projects, education)
<i>1) Defense Spending</i>	<ul style="list-style-type: none"> <li>• According to the pie chart on p. 468, what percentage of the federal budget was spent on defense in 2012? <i>18.4%</i></li> <li>• Why does the government spend so much money on defense? <i>National security is vital</i></li> </ul>
<i>2) Non-defense Spending</i>	From the table on p. 468, aside from defense spending, what were the top 3 departments spent the most money in 2012? 1) Health & Human Services 2) Social Security Administration 3) Treasury