



CHAPTER LEARNING OBJECTIVES

1. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN THE CONCEPT OF FISCAL POLICY**
2. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE STRATEGIES FOR FISCAL POLICY**
3. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE LIMITATIONS OF FISCAL POLICY**
4. **STUDENTS WILL BE ABLE TO DEFINE THE MULTIPLIER EFFECT AND EXPLAIN HOW IT WORKS TO HELP CONTROL THE ECONOMY**
5. **STUDENTS WILL BE ABLE TO IDENTIFY, DEFINE, AND EXPLAIN THE 3 FISCAL POLICY PHILOSOPHIES FOR FREE MARKET ECONOMIC SYSTEMS**
6. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN WHAT THE FEDERAL BUDGET AND FISCAL YEAR IS**
7. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE STEPS IN THE FEDERAL BUDGET PROCESS**
8. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN WHAT A BUDGET DEFICIT IS**
9. **STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE OPTIONS THAT ARE AVAILABLE TO MANAGE BUDGET DEFICITS**
10. **STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN WHAT THE NATIONAL DEBT IS**

WHAT IS THE ORIGIN OF THE WORD “FISCAL” ?

WHAT IS “FISCAL POLICY” ?

HOW DOES FISCAL POLICY WORK AS A TOOL TO CONTROL THE ECONOMY?

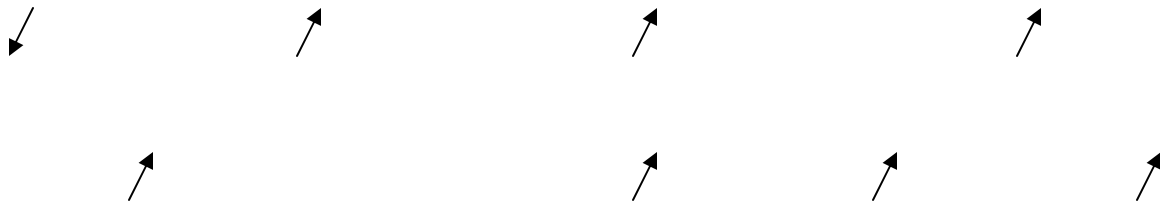


WHAT IS THE “MULTIPLIER EFFECT” ?

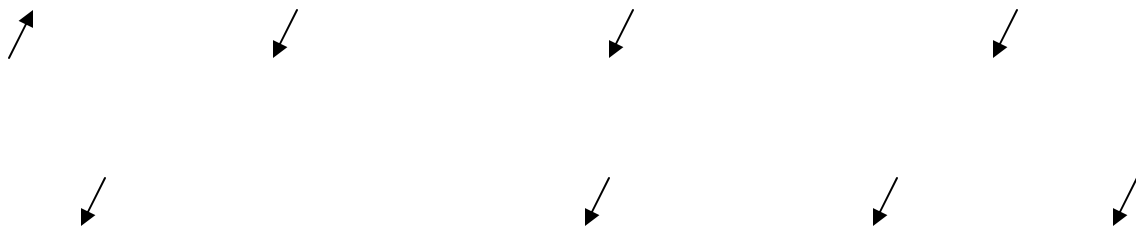


WHAT ARE THE 2 STRATEGIES REGARDING FISCAL POLICY USE AS A TOOL FOR MANAGING THE ECONOMY ?

1. “EXPANSIONARY POLICIES” -



2. “CONTRACTIONARY POLICIES” -



DR. HOLDEN VIDEO > AUTOMATIC ECONOMIC STABILIZER EXAMPLES

DURING A GROWTH , OR BOOM , PERIOD :

1. GOVERNMENT SPENDING ON WELFARE _____
BECAUSE UNEMPLOYMENT IS _____
2. WAGES GO UP AND AS A RESULT PEOPLE PAY _____ IN
_____ WHICH LIMITS THEIR ABILITY TO _____

DURING A RECESSION :

1. GOVERNMENT SPENDING ON WELFARE _____

BECAUSE UNEMPLOYMENT IS _____

**2. WAGES GO DOWN AND AS A RESULT PEOPLE PAY _____ IN
_____ WHICH LIMITS THEIR ABILITY TO _____**

WHAT ARE THE 5 LIMITS OF FISCAL POLICY AS A TOOL ?

1.

2.

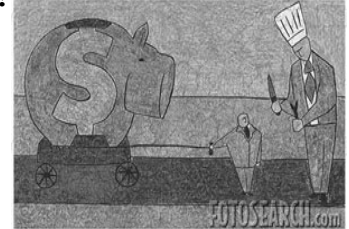
3.

4.

5.

1.

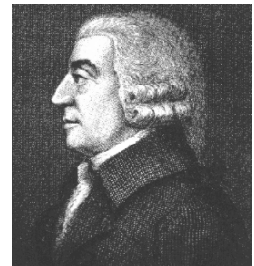
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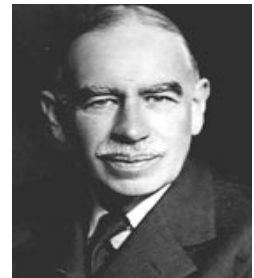
DIVIDING THE PORK

WHAT ARE THE 3 THREE FISCAL POLICY PHILOSOPHIES THAT ARE POPULAR IN FREE MARKET ECONOMIES ?

1. “ CLASSICAL ECONOMICS ” -



2. “ KEYNESIAN ECONOMICS ” -



3. “ SUPPLY SIDE ECONOMICS ” -



1.

2.

“SAY’S LAW” -



Laffer Curve Video

CONCEPTS BEHIND THE LAFFER CURVE :

1. **THAT TAX CUTS , IN SOME CIRCUMSTANCES . WILL GENERATE _____ GOVERNMENT REVENUE**

2. **HIGH TAX RATE CREATES A _____ TO PRODUCE**

TRUE OR FALSE ?

1. **ALL TAX CUTS PAY FOR THEMSELVES**

2. **ALL TAX CUTS ARE EQUAL**

3. **TAX CUTS THAT ENCOURAGE PRODUCTION ARE MORE FAVORABLE**

4. **THE GOAL OF TAX CUTS SHOULD BE TO PROMOTE GROWTH RATHER THAN MAXIMIZE GOVERNMENT REVENUES**

WHAT SHOULD POLICY BE ? THE 4 HISTORICAL POINTS REGARDING FISCAL POLICY :

1.

2.

3.



4.



WHO CAUTIONED AGAINST USING TOO MUCH OF KEYNESIAN FISCAL POLICY TO EFFECTIVELY REGULATE THE ECONOMY AND WHY ?



WHAT IS THE “FEDERAL BUDGET” ?

WHAT IS A “FISCAL YEAR” ?



WHAT ARE THE 6 STEPS TO THE FEDERAL BUDGET PROCESS ?

1.

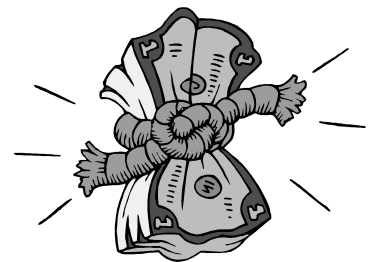
2.

3.

4.

5.

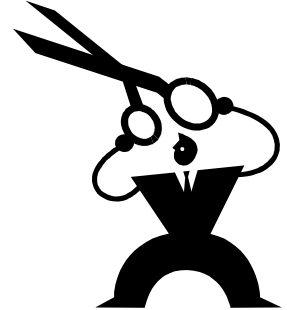
6.



WHAT IS A “DEFICIT” ?

WHAT ARE THE 5 OPTIONS AVAILABLE TO MANAGE DEFICITS ?

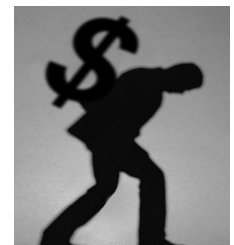
- 1.
- 2.
- 3.
- 4.
- 5.



WHAT IS THE “NATIONAL DEBT” ?

WHAT ARE THE 5 MAJOR ISSUES REGARDING THE NATIONAL DEBT ?

- 1.
- 2.



SHORT VIDEO ON THE POTENTIAL FOR CHINA TO CALL IN THEIR LOANS :

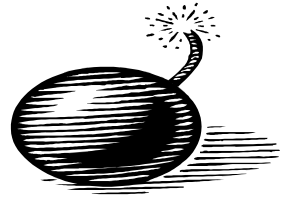
LISTEN AND NOTE TWO REASONS WHY CHINA IS NOT LIKELY TO CALL IN THEIR LOANS TO THE UNITED STATES

1. _____
2. _____

3. **“CROWDING OUT EFFECT” -**

4.

5.



HOW THE MULTIPLIER EFFECT WORKS

MULTIPLIER EFFECT

1. GOVERNMENT :

1.

2.

2. FEDERAL RESERVE > DECREASING OR INCREASING :

1.

2.

3.

TO UNDERSTAND

“ AVERAGE PROPENSITY TO CONSUME ” -

“ MARGINAL PROPENSITY TO CONSUME ” -

“ MARGINAL PROPENSITY TO SAVE ” -

THE MULTIPLIERS :

1. “ INVESTMENT MULTIPLIER ” -

2. “ GOVERNMENT SPENDING MULTIPLIER ” -

3. “ TAX MULTIPLIER ” -

MULTIPLIER TABLE

| <i>MPC</i> | <i>INVESTMENT MULTIPLIER</i> | <i>GOVERNMENT SPENDING MULTIPLIER</i> | <i>TAX MULTIPLIER NEGATIVE IF INCREASED</i> |
|------------|------------------------------|---------------------------------------|---|
| <i>.90</i> | <i>10.0</i> | <i>10.0</i> | <i>- 9.0</i> |
| <i>.80</i> | <i>5.0</i> | <i>5.0</i> | <i>- 4.0</i> |
| <i>.75</i> | <i>4.0</i> | <i>4.0</i> | <i>- 3.0</i> |
| <i>.60</i> | <i>2.5</i> | <i>2.5</i> | <i>- 1.5</i> |
| <i>.50</i> | <i>2.0</i> | <i>2.0</i> | <i>- 1.0</i> |

MULTIPLIER EXAMPLE

| <i>ROUND</i> | <i>INCREASE IN INCOME (GDP)</i> | <i>MPC</i> | <i>MPS</i> |
|----------------|---|--|--|
| <i>ROUND 1</i> | <i>\$ 1,000</i> | <i>.75 OF \$ 1,000 = \$ 750</i> | <i>.25 OF \$ 1,000 = \$ 250</i> |
| <i>ROUND 2</i> | <i>ONE PERSON'S SPENDING BECOMES ANOTHER'S INCOME = \$ 750</i> | <i>.75 OF \$ 750 = \$ 562.50</i> | <i>.25 OF \$ 750. = \$ 187.50</i> |
| <i>ROUND 3</i> | <i>THE NEXT PERSON'S SPENDING BECOMES ANOTHER'S INCOME = \$ 562.50</i> | <i>.75 OF \$ 562.50 = \$ 421.88</i> | <i>.25 OF \$ 562.50 = \$ 140.62</i> |
| <i>ROUND 4</i> | <i>ETC. \$ 421.88</i> | <i>.75 OF \$ 421.88 = \$ 316.41</i> | <i>.25 OF \$ 421.88 = \$ 105.47</i> |
| <i>TOTAL</i> | <i>FINAL OUTCOME FOR INCOME (GDP) = (1 / MPC = 4) X \$ 1,000 = \$ 4,000</i> | <i>FINAL OUTCOME FOR CONSUMPTION SPENDING = .75 OF \$ 4,000 = \$ 3,000</i> | <i>FINAL OUTCOME FOR SAVING = .25 OF \$ 4,000 = \$ 1,000</i> |

SAMPLE MULTIPLIER EFFECT QUESTIONS :

- 1. WHAT WOULD BE THE VALUE OF THE TAX MULTIPLIER OF THE MPC IS .60 ?**
- 2. WHAT IS THE VALUE OF THE GOVERNMENT SPENDING MULTIPLIER IF THE MPC IS .67 ?**
- 3. IF THERE IS A COUNTRY WITH AN MPC OF .75 IN WHICH THE GOVERNMENT INCREASED SPENDING BY \$100. AND INCREASED TAXES BY \$100. , WHAT THEN WOULD BE THE CHANGE IN GDP ?**

THE “ VELOCITY OF MONEY ” -

- 1.**
- 2.**

HOW IS IT CALCULATED ?

EXAMPLE :

SUPPOSE THAT THE ECONOMY PRODUCES 100 PIZZAS IN A YEAR , THAT A PIZZA SELLS FOR \$10. , AND THE QUANTITY OF MONEY IN THE ECONOMY IS \$50. WHAT IS THE VELOCITY OF MONEY , IN OTHER WORDS HOW MANY TIMES DOES A DOLLAR TURN OVER TO CONSUME ALL THE PIZZAS ?

$$V = (P \times Y) / M$$

$$V = (\$10. \times 100) / \$50.$$