

SOL 13C

GOVERNMENT INFLUENCE ON ECONOMIC ACTIVITY

JUST DO IT!

- With your neighbor answer the following questions.
- You do not have to write the questions down
- You do not have to write in complete sentences

- Name 3 public goods/services that the government provides
- Who pays taxes? What are tax dollars used for?
- What are the three ways that the Government pays for goods and services?
- What are the two characteristics of Goods/Services provided by the Government?
- What is the sales tax rate in Virginia?
(Remember it is a percentage %%%%)

ANSWERS

- Interstate Highways, postal service, streetlights, traffic signs, flood control, police and fire protection, pollution control, national defense
- Everybody pays taxes! Tax revenue is used for public goods and services
- Tax revenue, borrowed funds, collecting fees
- Must benefit many people at the same time and they would likely not be available if businesses and individuals had to provide them.
- 5.3% Remember, all states are different!

SOL 13C

- The student will demonstrate knowledge of the role of government in the United States economy by describing the impact of taxation, including an understanding of the reasons for the 16th Amendment, spending, and borrowing

TODAY'S GUIDING QUESTION

- How does the government influence economic activity?

VOCABULARY WORDS

- Stable: Not subject to extreme change, steady. Something that stays the same.
- Business Cycle: a repeated series of “ups” and “downs” in the economy.
- Recession: A time of economic slowdown (no growth is present).
- Inflation: A general rise in the price level of goods and services.

BUSINESS CYCLES

- The economy goes through business cycles.
- Remember, a business cycle is a repeated series of “up” and “downs” in the economy.
- The “ups” are times of economic growth and the “downs” are times of slowdown, or recession.

BUSINESS CYCLE PROBLEMS

- “Ups” and “Downs” could cause some problems.
- A deep recession, or “down” can cause thousands of people to lose their jobs.
- If the economy grows too fast, it can cause inflation, or a general rise in the price level of goods and services that will cause money to lose its buying power.
- When products cost more, money buys less.

HOW THE GOVERNMENT HELPS

- The government can use its power to tax, spend, and borrow to help flatten out these “ups” and “downs” of the business cycle.
- This helps promote a more stable economy (not too high, not too low)
- The way the government uses its powers of taxation, spending, and borrowing to influence the economy is called its fiscal policy.

LET'S LOOK AT TWO SCENARIOS

- 1. The economy is rapidly growing and the government wants to slow it down.
- 2. The economy is slow and experiencing a recession and the government wants to speed it up.

SCENARIO 1

- There are three ways that the government can slow down a rapidly growing economy.
- 1. **Raise Taxes**: People/businesses are spending more on taxes so this *decreases spending* on goods and services.
- 2. **Decrease Government Spending**: This *lowers demand*, which could slow economic activity. Decreased government spending might also lower taxes

- 3. **Increase Government Borrowing:**

This *lowers the funds available for individuals and businesses to borrow*, which could slow spending. If there is no money for people to borrow (loans) then there will be less economic activity.

SCENARIO 2

- There are three ways the government can speed up a slowing economy.
- 1. **Cut Taxes**: If taxes are lowered, the *money available to people will increase* which might make them spend more money.
- 2. **Increase Government Spending**: *Demand increases*, which might increase jobs and production. Increased government spending might cause higher taxes.

- 3. **Decrease Government Borrowing**: The amount of money available for individuals/businesses to borrow is *increased*, which might increase spending.

THE 16TH AMENDMENT

- The 16th Amendment to the Constitution gives Congress the power to tax income.
- Income is the money an individual makes by working and the money a business makes by selling goods and services.

THE REST OF CLASS

Work on your book/packet notes for SOL 13c.

If you have finished 13c, then move on to 13d.

We have a very busy week again and you need to stay on top of your work.

You will have a notebook check late next week.