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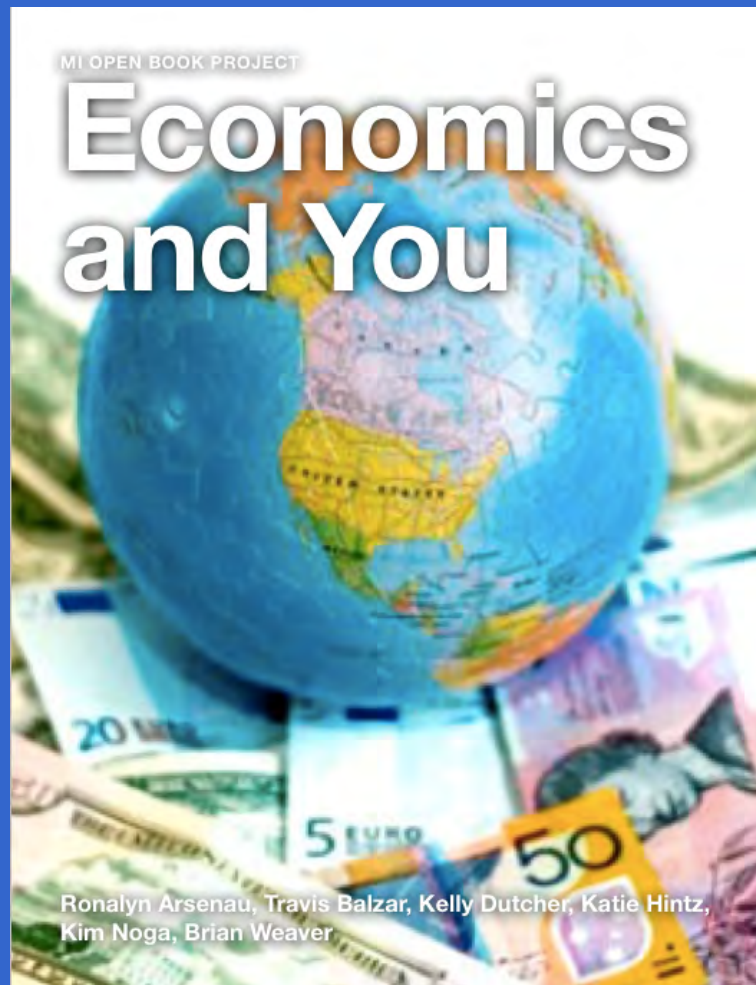
Economics and You

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This is version 1.5 of this resource, released August 2018

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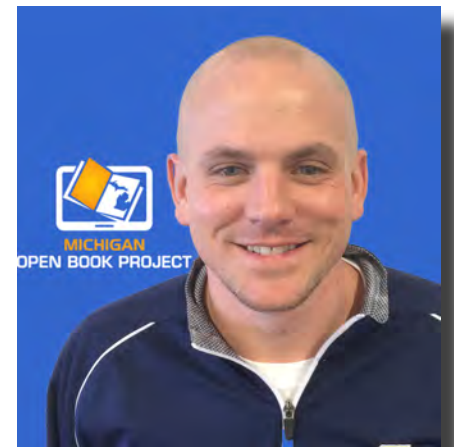
Ronalyn Arsenau teaches Economics and Business at Westwood High School in Ishpeming. She is a member of the State Executive Board of the Michigan Business Education Association, serving as Vice-President for Membership. She and her husband, Barry, enjoy traveling to spend time with their three children and their grandson.

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Shepherd Public Schools

Shepherd Public Schools

Travis L. Balzer is a Shepherd High School social studies teacher concentrating in Economics, Civics and History. Mr. Balzer (Mr. B) resides in Shepherd with his wife Haley, and daughters Makayla and Mia Jean. A Gladwin High School graduate. Parents Vicki and Teddy reside in Gladwin. Travis' sister, Kristal and two sons, Isaac and Adam reside in the Lansing area. Mr. Balzer earned an Economics and Management degree from Albion College and proceeded to obtain teaching certification from Saginaw Valley State University in Social Studies. In addition, obtaining a masters in Educational leadership from Grand Valley State University. Hunting, exercising including P90X, biking, running



Kelly Dutcher

Harbor Springs Public Schools

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Kelly Dutcher teaches Economics, Civics, U.S. History, and College Readiness at Harbor Springs High School. Aside from teaching, she is also a Michigan Youth in Government advisor, and class of 2017 sponsor. Mrs. Dutcher is a graduate of Lake Superior State University where she received her BS in Social Studies and Secondary Education. She is currently working towards receiving her MA in American History and Government at Ashland University, and will spend a month this summer as a James Madison Memorial Fellow studying in Washington D.C. Kelly loves teaching at the high school level, and helping bring social studies to life for her students. She shares her life with her husband Jordan and three joyful girls: Daphne, 5; Audrey, 3; Meredith 2.





Katie Hintz

Gladwin Public Schools

Gladwin High School

Katie is completing her seventh year as a teacher at Gladwin High School, where she has taught every Social Studies course available, including: American Government, Sociology, Current Events, World History, Economics, Social Problems in the United States, and Law. A graduate of Saginaw Valley State University's Secondary Education Program, she majored in History, minored in Sociology and earned a Social Studies Endorsement. As Social Studies Department Chair, she was inspired to participate to the Open Book Project because of the disjointed resources that most economics teachers are forced to scrape together to create a captivating curriculum.

Currently, she is working on completing her Masters in Global History at with American Public University. Her final thesis on the Food Industry is due to be published September,

Kim Noga

Ionia Public Schools

Ionia High School

Kim has a B.A. in History/ Social Studies and an M.A. in Curriculum and Teaching, both from Michigan State University. For the past 14 years she has been employed at Ionia High School where she teaches Economics, U.S. History, and Humanitarian Studies. Her hobbies include reading and traveling the world.



Brian Weaver

Big Rapids Public Schools

Big Rapids High School

Mr. Weaver has been teaching high school social studies for fourteen years. After one year at New Directions Alternative High School in the Big Rapids Public Schools he moved to Big Rapids High School where he has taught US History & Geography, American Government, World History & Geography, Economics, Geography, Psychology, and Modern Social Problems. Before becoming a high school teacher, Mr. Weaver worked in higher education as a development officer and administrator. As Director of Development for Ferris State University he oversaw fund raising activities for Kendall College of Art and Design and served as Director of the Kendall Foundation. In ten years of service at Northern Michigan University he served in a variety of development posts including Director of Development Research and Director of Annual Giving. Mr. Weaver caught the teaching bug during his service in the Peace Corps on the central Philippines island of Leyte where he taught in a two-room school house. His many interests include reading, woodworking, and home improvement



The Government Intervenes

QUESTIONS TO GUIDE INQUIRY

1. When does government intervention go too far?
2. In what ways does the government intervene the U.S. economy?
3. How does government taxing and spending impact the economy?
4. How does the Federal Reserve's know which tool of monetary policy will ensure economic stability?
5. What is the benefit of government intervention in the economy?

The Role of Government in Free Market Systems

QUESTIONS TO GUIDE INQUIRY

1. When does government intervention go too far?
2. In what ways does the government intervene the U.S. economy?

Markets fail. That is to say free markets do not always offer all of the goods and services that people might want. In addition, free market economies suffer from that difficulties caused by the business cycle. Periods of growth that are too rapid are followed by periods of decline, recession, or even depression. Because of these factors, governments act or intervene in free market systems.

In the United States, the government acts to support free markets as well. The term free market implies that it can exist free from government and that it prospers best when government leaves it alone. Nothing could be further from the truth. In reality, a market economy does not exist separate from government – it is very much a product of government rules and regulations. Our free market system would simply not exist as we know it without the presence of an active government that creates and maintains the rules and conditions that allow it to operate efficiently. What are some of the ways government supports free markets in the United States?

Ways Government Supports Free Markets in the United States

- Limited Liability Laws
- Property Rights
- Law and Order
- Bankruptcy Protection
- A Stable Money Supply
- Patents and Copyrights
- Banking Regulation and Insurance
- Commercial Transactions Laws

Interactive 5.1
Government Interventions



Read about each of these governmental supports at the website [Government is Good](#)

These are some of main ways government supports free markets. It is easy to see that without government intervention and support free markets would be much less effective in producing and distributing high quality, low-cost goods.

Public Goods and Externalities

For every economic activity there are unintended consequences. Sometimes these unintended consequences are positive in their impact, sometimes they are negative. These unintended consequences are called **Externalities**. A traditional scenario that illustrates the idea externalities is the building of a dam on a river. The primary economic activity involved is producing electricity and/or flood control. But the building of a dam is very invasive and results in many unintended consequences.

Identify two (2) of the supports listed that you think are most important in supporting free markets. Be sure to explain why you believe the interventions you identify are essential to free market performance.

Positive Externalities of Building a Dam	Negative Externalities of Building a Dam
New recreation activities Improved property values	Loss of natural wildlife habitat Increase in number of people

Negative Externalities result in economic costs that are not born, necessarily, by either the producer or purchaser of a good. For example, when a power plant produces electricity pollution is created. The pollution represents a negative externality. Without government intervention (regulation to require pollution control technology or remediation) the cost of the pollution is borne by everyone, not just by the producer and buyer of the electricity.

Negative externalities are one type of market failure. Another category of market failure results from the fact that free markets do not always provide all of the goods that we would like. As a result, government intervenes by providing these goods. They include goods like roads, parks, dams, and libraries. In most cases it is impossible for markets to provide these goods because there is no means to profit from their production. These kinds of goods are called Public Goods. Public goods are goods from which it is difficult to exclude people, even if they do not contribute to paying for their creation. This is called the Free Rider problem. It is impracticable, for example, to exclude people from using the road in front of your home, even if they are from another State. Another characteristic of public goods is the concept of non-rivalry. This characteristic of public goods means that one additional user does not diminish the value of the good for other users. One more car, for example, using the road in

front of your home does not diminish its usefulness for other users.

Market Failures and Government Regulation

When markets fail, government intervenes. When desirable goods are not provided by free markets, government produces public goods like roads and libraries. When negative externalities are produced through economic activity, government intervenes through regulation. An electricity producer that also creates pollution may be required to install pollution reduction technology or to pay a fine. By taking these actions, government helps create better functioning free markets in the same manner in which they promote free market efficiency using the techniques listed above and that include creating an environment in which free markets can function by providing for competitive markets, securing property rights, and maintaining law and order.



Section 2

Taxes

QUESTIONS TO GUIDE INQUIRY

1. How does government taxing and spending impact the economy?

Whenever we hear the word, “taxes” we tend to envision negative thoughts. After all, by the time we add up state and local taxes taken from a paycheck, it sometimes can be rather depressing. Most of time we don’t automatically think of all of the ways that the collection of taxes benefits us; a lot of the time this is because benefits to all are the result of collective funds--not just the amount that we, as individuals, contribute. Let’s examine the government’s right to tax as well as the purposes that taxation serves.

A **tax** is a required payment to a local, state, or national government. The collection of money through taxation is the primary way that the government collects money. The income that a government receives from taxation as well as other non tax sources is called **revenue**. Without revenue, a government would not be able to provide goods and services that we, as taxpayers, expect them to provide. Therefore, all members of a society must share the responsibility for the government’s raising of revenue.

Although it sometimes may seem like there is no limit to government taxation, this is not the case. The Constitution clearly articulates limits on the government’s power to tax. The purpose of a tax must be “for the common defense and general

welfare” of the country. Additionally, federal taxes that are collected must be the same in every state. Also, the kinds of taxes that can be levied are limited. And, export taxes are prohibited by the Constitution. Tax collection is done by the Internal Revenue Service (IRS); the appropriation of tax revenue is conducted through Congress.

Tax Structure and Tax Bases

Although there are constitutional limits on its power, the government does collect a wide variety of taxes, which are described in different ways. How the tax is structured and the tax base help clarify why a tax is collected as well as the type of tax that is being collected. To gain a more thorough understanding of tax structures and tax bases, the following activity will be extremely helpful.

Interactive 5.2 How should Government Structure The Tax System?



Federal Spending

QUESTIONS TO GUIDE INQUIRY

1. How does government taxing and spending impact the economy?

It is through our democratic process that government officials are given clear guidelines as to how the government's income should be spent. And, as we know, government spending meets numerous needs. How much money should be allocated to specific programs when there is not enough money to satisfy endless needs and wants is part of the government's allocation dilemma.

Mandatory and Discretionary Spending

Realistically, most of the government's annual revenue from taxes is already spent because after the government fulfills its legal obligations, only about $\frac{1}{3}$ of the available funds are left to be spent. Mandatory spending is the term used to describe the money that Congress is required by law to spend on certain programs or to use for interest payments on the national debt. The majority of the items that fall under the mandatory spending category are entitlements--social welfare programs that people are "entitled to" benefit from if they meet requirements of eligibility. This also means that the federal government is entitled to guarantee assistance to all who qualify. Because of population increases and a number of other factors, it is easy to see how the percentage of federal spending that is mandatory continues to grow. On the other hand, discretionary spending is spending about which lawmakers are free to make choices; an increase in

mandatory spending means a decrease in discretionary funds that are available.

For a thorough breakdown of how each dollar of federal revenue is spent, view the following video:



Now that you have a more comprehensive view of how government revenue is spent, try your hand at building a better federal budget. The link below provides access to an economic simulation where you can determine expenditure allocations. If you're extremely confident in your decision-making process, you can even submit your plan to Congress. On the other hand, you may discover that the process isn't as easy as it might seem. Good luck!



Section 4

Fiscal Policy

QUESTIONS TO GUIDE INQUIRY

1. How does the Federal Reserve's know which tool of monetary policy will ensure economic stability?
2. What specific tools does the government have in its fiscal toolbox?
3. Should the government intervene using fiscal tools?

What is fiscal policy?

Watch this clip from the movie Dave and his approach with the budget. Is fiscal policy is as easy as this?

Before continuing think about what “fiscal policy” might be all about. Record 2 or 3 sentences here

Interactive 5.5 Fiscal Policy



Fiscal policy is one of the ways in which the government influences the economy. The goal of fiscal policy is to manage the business cycle so that the economy neither grows too fast nor shrinks too precipitously. Generally speaking the government exercises fiscal policy when it changes its taxing or spending policies. The make these changes in order to influence aggregate demand and/or aggregate supply.

During a recession, for example, the government may act to increase aggregate demand by lowering taxes so that individuals have more money to spend. Or, the government might increase spending on projects like road building in order to stimulate economic activity.

Interactive 5.7 Fiscal Policy



You can read more about fiscal policy here: <http://www.romeconomics.com/fiscal-policy-explained/>

consequences of governmental intervention in the economy using fiscal policy tools.

Government Fiscal Policy Intervention

Positive Outcomes

Potential Problems

You have probably identified one major concern that arises when the government exercises fiscal policy tools. Whenever the government either lowers taxes or increases spending (or both), there is a financial consequence. During recession when the government exercises these fiscal tools the government faces a fall in tax revenue due to a reduction in economic activity. In other words, when the economy shrinks during a recession, there are fewer jobs and people and businesses earn less money. The result is less government tax revenue. Then, in addition, the government further exacerbates the issue by lowering tax rates (reducing revenue) or spending more on projects. The goal is to use fiscal tools to reduce the length and severity of an economic recession. But at what cost? The result is often increasing annual government budget deficits and a corresponding increase in the national debt. Check out an estimate of the current budget deficit or surplus and debt at the link below.

Interactive 5.6 Fiscal Policy



Of course whenever the government intervenes there are potential positive as well as potential negative consequences. In the space below make notes about what you think might be the

Interactive 5.8 US Debt Clock



What is the current estimated annual deficit according to this website?

What is the current estimated national debt according to this website?

How much would each citizen pay to eliminate the debt?

How much would each taxpayer have to pay to eliminate the debt?

Your reaction to seeing this page, if you are anything like me, is one of awe and dismay. A natural reaction is to ask oneself if the cost of governmental fiscal policy stimulus programs are worth the cost in terms of deficit and accumulated debt. The answer to this question begs another: What is the result of fiscal policy action? Do they work?

Each of the articles linked on the website widget represents a different view about the efficacy of fiscal policy programs. Read the articles and prepare to create an argumentative essay in which you will advocate for or against the use of fiscal policy stimulus plans.

Interactive 5.9 Fiscal policy Articles



After reading the articles use Google Docs or another word processing program to write an argumentative essay.

Arguing for Fiscal Policy

Governments use fiscal policy tools including increasing or decreasing taxes or spending in an attempt to influence the business cycle. For example, a government might cut taxes in order to shorten the length or severity of a recession. Some argue that fiscal policy tools are an effective tool to reduce problems associated with a recession like high rates of unemployment. Others maintain that these governmental actions do little to diminish the negative effects of a recession while increasing the burdens of governmental debt accumulation. Are governmental fiscal policy actions effective and worth the cost?

In your essay, take a position on this question. You may write about either one of the two points of view given, or you may present a different point of view on this question. Use specific reasons and examples to support your position.

Your essay will be assessed using the following guidelines....

1. A strong opinion is clearly stated
2. Two detailed arguments are articulated
3. Your arguments are supported with information from the articles

As you reflect on the efficacy of fiscal policy, view the video below. Your teacher will conclude this section with a classroom discussion concerning the conflicting views of the economists Friedrich Hayek and John Maynard Keynes. First, read the article by Nicholas Wapshott linked here. During reading you should take notes in a table like the one below.

Interactive 5.10 The Keynes Hayek Showdown



Summarize the economic disagreement between Keynes and Hayek in 3 to 5 sentences below

Views of Keynes

Views of Hayek

Now, as a class, watch the video linked in Interactive 5.11. Be prepared to discuss as a class.

Interactive 5.11 Fear the Boom and Bust



Interactive 5.12 US Budget visualized



Interactive 5.13 Budget
Simulation: How do you
reduce the deficit?



Now you're ready to write:

What is your fiscal policy? Add taxes, cut taxes; add programs; cut programs. What is your goal with your choice of policy(s)?

The Federal Reserve and Monetary Policy

QUESTIONS TO GUIDE INQUIRY

1. What is Monetary Policy?
2. When does the government intervene using monetary tools?
3. What specific tools does the government have in its monetary toolbox?
4. What is the Federal Reserve? What are its goals/importance?

The following has been adapted from <http://www.federalreserve.gov/monetarpolicy/fomc.htm>

The term "monetary policy" refers to the actions undertaken by the US central bank, often referred to as the Federal Reserve. Their goals are to influence the availability and cost of money and credit to help promote national economic goals. The Federal Reserve Act of 1913 gave the Federal Reserve responsibility for setting monetary policy.

The Federal Reserve controls the three tools of monetary policy--

1. open market operations,

Open market operations (OMOs)--the purchase and sale of securities in the open market by a central bank--are a key tool used by the Federal Reserve in the implementation of monetary policy. The short-term objective for open market operations is specified by the Federal Open Market Committee (FOMC). Historically, the Federal Reserve has used OMOs to adjust the supply of reserve balances so as to keep the federal funds rate--the interest rate at which depository institutions lend reserve balances to other depository institutions overnight--around the target established by the FOMC.

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since the financial crisis, and particularly so since late 2008 when the FOMC established a near-zero target range for the federal funds rate. Since the end of 2008, the Federal Reserve has greatly expanded its holding of longer-term securities through open market purchases with the goal of putting downward pressure on longer-term interest rates and thus supporting economic activity and job creation by making financial conditions more accommodative.

2. the discount rate,

The discount rate is the interest rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank's lending facility--the discount window. The Federal Reserve Banks offer three discount window programs to depository institutions: primary credit, secondary credit, and seasonal credit, each with its own interest rate. All discount window loans are fully secured.

Under the primary credit program, loans are extended for a very short term (usually overnight) to depository institutions in generally sound financial condition. Depository institutions that are not eligible for primary credit may apply for secondary credit to meet short-term liquidity needs or to resolve severe financial difficulties. Seasonal credit is extended to relatively small depository institutions that have recurring intra-year fluctuations

in funding needs, such as banks in agricultural or seasonal resort communities.

The discount rate charged for primary credit (the primary credit rate) is set above the usual level of short-term market interest rates. (Because primary credit is the Federal Reserve's main discount window program, the Federal Reserve at times uses the term "discount rate" to mean the primary credit rate.) The discount rate on secondary credit is above the rate on primary credit. The discount rate for seasonal credit is an average of selected market rates. Discount rates are established by each Reserve Bank's board of directors, subject to the review and determination of the Board of Governors of the Federal Reserve System. The discount rates for the three lending programs are the same across all Reserve Banks except on days around a change in the rate

3. reserve requirements.

Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Within limits specified by law, the Board of Governors has sole authority over changes in reserve requirements. Depository institutions must hold reserves in the form of vault cash or deposits with Federal Reserve Banks.

The dollar amount of a depository institution's reserve requirement is determined by applying the reserve ratios specified

in the Federal Reserve Board's Regulation D to an institution's reservable liabilities (see table of reserve requirements). Reservable liabilities consist of net transaction accounts, nonpersonal time deposits, and eurocurrency liabilities. Since December 27, 1990, nonpersonal time deposits and eurocurrency liabilities have had a reserve ratio of zero.

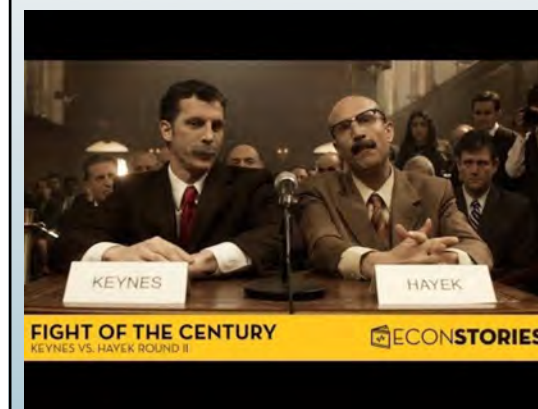
The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. Using the three tools, the Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

Changes in the federal funds rate trigger a chain of events that affect other short-term interest rates, foreign exchange rates, long-term interest rates, the amount of money and credit, and, ultimately, a range of economic variables, including employment, output, and prices of goods and services.

Interactive 5.15 Fear the Boom and Bust



Interactive 5.14 Fight of the Century - Round Two



What is the goal of the FOMC and Monetary Policy?

What are the goals of The FED?

Interactive 5.16 What should the FED do?



What are the roles of the FED?

How would the FED stabilize prices?

How can the FED enhance employment?

How can the FED policies stable the market and promote growth?

What is your monetary policy?

Contractionary or Expansionary?

What is your goal with your policy?

What is the relationship between monetary and fiscal policies?

How does Monetary policy work?

Final performance task:

From the text sources provided in this chapter, explain how the philosophies on the relationships between money, supply, inflation, and recessions are presented through the perspectives of different economic viewpoints—Adam Smith (Neo-Classical), John Maynard Keynes (Keynesian), and Milton Friedman (Monetarist). This should be done through note-taking of each text in which accurate summaries are synthesized and compared through a Venn Diagram, chart, or other type of graphic organizer. Conclusions on the relationships between key ideas and details should be drawn through comparison and contrast of philosophies.

Using notes from viewing these documents, draw comparisons between the current state of the economy and The Great Depression (different economic conditions) by answering the following question in an essay: **Would the implementation of the philosophy of a single economist (Smith, Keynes, or Friedman) have prevented The Great Depression and also improve the current state of the economy?**