Policy Tradeoffs

How spending and taxes shape jobs, prices, and growth

GE.7.3 "Analyze how the government uses fiscal policy to promote price stability, full employment, and economic growth."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two fiscal policy actions, circle the economic condition each responds to, and number one possible benefit and one possible risk of each action. Use your marks to compare how the same policy can work differently in different conditions.

When Should Government Step In?

1. When orders at factories fall, workers may lose hours, and nearby shops may sell less. A national government can use fiscal policy, changes in spending and taxes, to influence total demand for goods and services. Suppose it pays to repair aging bridges during this slump. Contractors hire workers, who then spend some wages at local businesses. If factories have unused equipment and people need work, the added demand can raise output and employment without quickly pushing prices up.

2. Now imagine factories are operating near capacity, but buyers keep placing more orders. Firms may raise prices when they cannot increase production fast enough. To cool demand, lawmakers could delay some government purchases or raise taxes, leaving households with less money to spend. Slower spending may ease inflation, meaning prices rise more slowly, not necessarily fall. Yet a large or sudden cut in demand could reduce sales and cost workers their jobs.

3. A sharp rise in oil costs creates a different problem: transportation becomes more expensive even if sales are weak. A broad tax cut might boost spending but would not produce more oil, so it could add pressure to prices. Investments that improve energy efficiency or freight routes might expand what businesses can produce over time. Such projects take time, however, and borrowing to pay for them adds to government debt. Officials must weigh immediate jobs, stable prices, and lasting growth.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why could bridge spending raise employment during the slump without quickly raising prices?

2. How could delaying government purchases promote price stability when factories are near capacity? What is one risk?

3. Why might a broad tax cut be a poor response to rising oil costs?

4. A lawmaker says freight-route investments will bring prices down next month. Which two details in the passage challenge that claim?

3 YOUR TURN

Your own words

A country has weak sales, many job seekers, and water pipes that often break. In 3 to 4 sentences, propose one spending or tax change, explain how it could affect jobs and long-term growth, and identify one risk to prices or government debt.

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PART 1 · READ AND MARK

Underline two fiscal policy actions, circle the economic condition each responds to, and number one possible benefit and one possible risk of each action. Use your marks to compare how the same policy can work differently in different conditions. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why could bridge spending raise employment during the slump without quickly raising prices?	**Contractors would hire workers, and their wages would add to spending. Unused equipment and available workers would let businesses increase output to meet demand.**
2	How could delaying government purchases promote price stability when factories are near capacity? What is one risk?	**It could slow demand and ease inflation. If demand falls too much, businesses could lose sales and cut jobs.**
3	Why might a broad tax cut be a poor response to rising oil costs?	**It could increase spending without producing more oil, adding pressure to prices.**
4	A lawmaker says freight-route investments will bring prices down next month. Which two details in the passage challenge that claim?	**The investments expand productive capacity over time, not immediately. Projects take time and do not directly produce more oil.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

The government could pay to replace failing water pipes. Hiring crews would give job seekers work and add income to the economy while sales are weak. Reliable water could reduce future shutdowns at businesses, helping them produce more over time. Borrowing for the project would add to government debt, and added demand could raise prices if production cannot keep up.

Accept other plausible spending or tax changes if the response connects the policy to employment and long-term production, then identifies a credible price or debt risk. For question 4, accept the point that freight improvements do not immediately resolve an oil shortage.