Policy Trade-Offs

Compare how government choices affect jobs, prices, and the federal budget.

E.C.10 "Identify the potential economic impact of government policy. Compare fiscal and monetary policy and evaluate the impact each has on economic growth, employment, and price stability..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline one federal spending or tax change, circle one Federal Reserve action, and number two sentences that pair a policy benefit with a cost.

Two Ways to Respond

1. When a recession leaves stores quiet and workers without jobs, Congress might fund repairs to bridges near a city's factories. Contractors hire workers, who spend wages at local shops. That is fiscal policy: Congress and the president change federal spending or taxes to influence demand. Cutting income taxes could also leave households more money to spend, although neither step guarantees hiring. If new spending rises without matching tax revenue, the federal budget deficit, the amount spent beyond revenue in a year, can grow. A surplus occurs when revenue exceeds spending; repeated deficits generally add to the national debt.

2. The choice of how to pay matters. Under a progressive income tax, higher earners pay a larger share of income than lower earners; under a proportional tax, each pays the same share. A regressive tax takes a larger share of lower earners' income, even if everyone faces the same rate on a purchase. Raising a progressive tax to fund bridge repairs might limit the deficit and support jobs, but it leaves some households with less money to spend. Lawmakers may favor the plan because safer bridges serve a social goal, even if the tax dampens demand.

3. The Federal Reserve, or Fed, makes monetary policy independently of day-to-day congressional votes. Its Board of Governors and 12 regional Reserve Banks form the system; the Federal Open Market Committee guides decisions on key interest rates. To fight a surge in prices, the Fed can sell securities, draining bank reserves and tending to push interest rates up. Costlier loans can slow spending and inflation, but may also reduce hiring. Lowering the discount rate, what the Fed charges eligible banks for loans, can encourage lending instead. The Fed can also set reserve requirements and works toward stable prices, maximum employment, and financial stability.

2 ANSWER WITH EVIDENCE

Use the passage

1. Compare the likely effect on hiring of federal bridge spending and a Fed sale of securities. Why might leaders choose each action?

2. If Congress increases bridge spending without matching tax revenue, what could happen to the deficit and, over time, the national debt? How would a surplus differ?

3. How do progressive, proportional, and regressive taxes differ in the share of income paid by lower and higher earners?

4. Why might lawmakers raise a progressive tax to pay for bridge repairs even though the tax could dampen demand?

3 YOUR TURN

Your own words

Grocery prices are rising while local stores are laying off workers. In 4 to 5 sentences, propose one federal fiscal action and one Fed action, explain a possible benefit and cost of each, and state whether you would prioritize jobs or price stability.

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PART 1 · READ AND MARK

Underline one federal spending or tax change, circle one Federal Reserve action, and number two sentences that pair a policy benefit with a cost. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Compare the likely effect on hiring of federal bridge spending and a Fed sale of securities. Why might leaders choose each action?	**Bridge spending can create jobs during a recession. Selling securities can make loans costlier and reduce hiring, but the Fed might do it to slow inflation.**
2	If Congress increases bridge spending without matching tax revenue, what could happen to the deficit and, over time, the national debt? How would a surplus differ?	**The deficit could grow, and repeated deficits generally add to the debt. A surplus means revenue exceeds spending.**
3	How do progressive, proportional, and regressive taxes differ in the share of income paid by lower and higher earners?	**Under a progressive tax, higher earners pay a larger share. Under a proportional tax, both pay the same share. A regressive tax takes a larger share from lower earners.**
4	Why might lawmakers raise a progressive tax to pay for bridge repairs even though the tax could dampen demand?	**The tax might limit the deficit while funding jobs and safer bridges, a social goal, but it leaves some households with less to spend.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Congress could cut income taxes so families have more to spend. That might help stores hire, but lower tax revenue could increase the deficit. The Fed could sell securities to slow spending and inflation. Costlier loans, however, might cause businesses to hire fewer workers. I would prioritize jobs with a temporary tax cut while watching whether prices rise further.

Accept other passage-supported policy choices and reasonable, qualified predictions. Responses should distinguish federal fiscal actions from Fed monetary actions and identify a benefit and cost for each.