

GUIDED READING Activity 10-1

For use with textbook pages 255–258

THE ECONOMICS OF GOVERNMENT SPENDING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

transfer payments	per capita	private sector
public sector	grant-in-aid	resource allocation
distribution of income	redistributing income	goods and services

Introduction/Government Spending in Perspective

Government is a major player in the economy of the United States, spending more than all privately owned businesses combined. It spends huge amounts on **1** _____, **2** _____, and other programs. On a **3** _____, or per person basis, this amounts to almost \$10,000 for every person in the country. The growth in the **4** _____, which is the part of the economy made up of federal, state, and local governments, has led some people to question what services the government should provide and what should be provided by the **5** _____—the part of the economy made up of private individuals and privately owned businesses.

Two Kinds of Spending

Government makes two broad kinds of expenditures. The first is for **6** _____. The second is in the form of what are called **7** _____. These are payments for which the government receives neither goods nor services in return. One type is known as a **8** _____. An example is the interstate highway construction programs for which the federal government grants money to cover the major part of the cost. The states through which the highways pass pay the rest.

Impact of Government Spending

Government spending decisions directly affect **9** _____. Resources are shifted to wherever the government chooses to spend its revenues. Government spending also influences the **10** _____, or the way in which income is allocated among families, individuals, or other groups in the economy. The government, by producing **11** _____, is often in competition with producers in the **12** _____.

GUIDED READING Activity 10-2

For use with textbook pages 260–265

FEDERAL GOVERNMENT EXPENDITURES

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is the difference between mandatory spending and discretionary spending in the federal budget?

2. What is the difference between a fiscal year and the calendar year?

3. What branch of the government is responsible for developing the budget?

4. What is a federal budget surplus?

5. What is a federal budget deficit?

6. What is an appropriations bill?

7. What is the Congressional Budget Office (CBO) and what is its role?

8. What are the 12 categories of expenditures in the federal budget?

GUIDED READING Activity 10-3

For use with textbook pages 267–270

S TATE AND LOCAL GOVERNMENT EXPENDITURES

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

elementary and secondary education

interest on debt

insurance trust funds

balanced budget amendment

bonds

public utilities

intergovernmental expenditures

public welfare

police protection

higher education

Introduction/Approving Spending

Like the federal government, state and local levels of governments also have to go through a budget process. Some states have enacted a **1** _____, which is a constitutional amendment that requires that annual spending not exceed revenues. Under these conditions, states must cut spending when revenues drop.

State Government Expenditures

There are seven major categories of state government expenditures. The largest is **2** _____. These are the funds that the state distributes to towns and cities. The second-largest category of expenditures is **3** _____. These payments take the form of cash assistance and payments for medical care. Money in **4** _____ is invested until such time as people retire, become unemployed, or are injured on the job. Another large category is **5** _____, a traditional responsibility of state governments with their networks of state colleges and universities. States borrow money, usually by issuing **6** _____. As a result, they must pay **7** _____.

Local Government Expenditures

More than one-third of local government spending is on **8** _____. Spending on **9** _____, such as water and sanitation, amounts to the second most important expenditure. Local spending on **10** _____ is higher than it is on the state level. As with the federal and state governments, local governments also borrow money for large capital expenditures, so they must budget for **11** _____. However, local governments spend much less than states on **12** _____.

GUIDED READING Activity 10-4

For use with textbook pages 272–278

DEFICITS, SURPLUSES, AND THE NATIONAL DEBT

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

- I. From the Deficit to the Debt
 - A. From the Deficit to the Debt—What is deficit spending?

 - B. Deficits Add to the Debt—What is the only way the annual budget can lower the federal debt?

 - C. How Big Is the Debt?—Why do most economists tend to disregard trust fund balances?

 - D. Public vs. Private Debt—How much of the public debt is owned by foreigners?

- II. Impact of the National Debt—What happens to the purchasing power of individuals as a consequence of the federal debt?

- III. Taming the Deficit
 - A. Gramm-Rudman-Hollings—Why did GRH fail?

 - B. Budget Enforcement Act of 1990—What is the BEA's main feature?

 - C. Omnibus Budget Reconciliation Act of 1993—What feature of this act helped account for the 1998 budget surplus?

 - D. Balanced Budget Agreement of 1997—What is a spending cap?

 - E. Success at Last—What is the connection between entitlements and mandatory spending in the federal budget?

