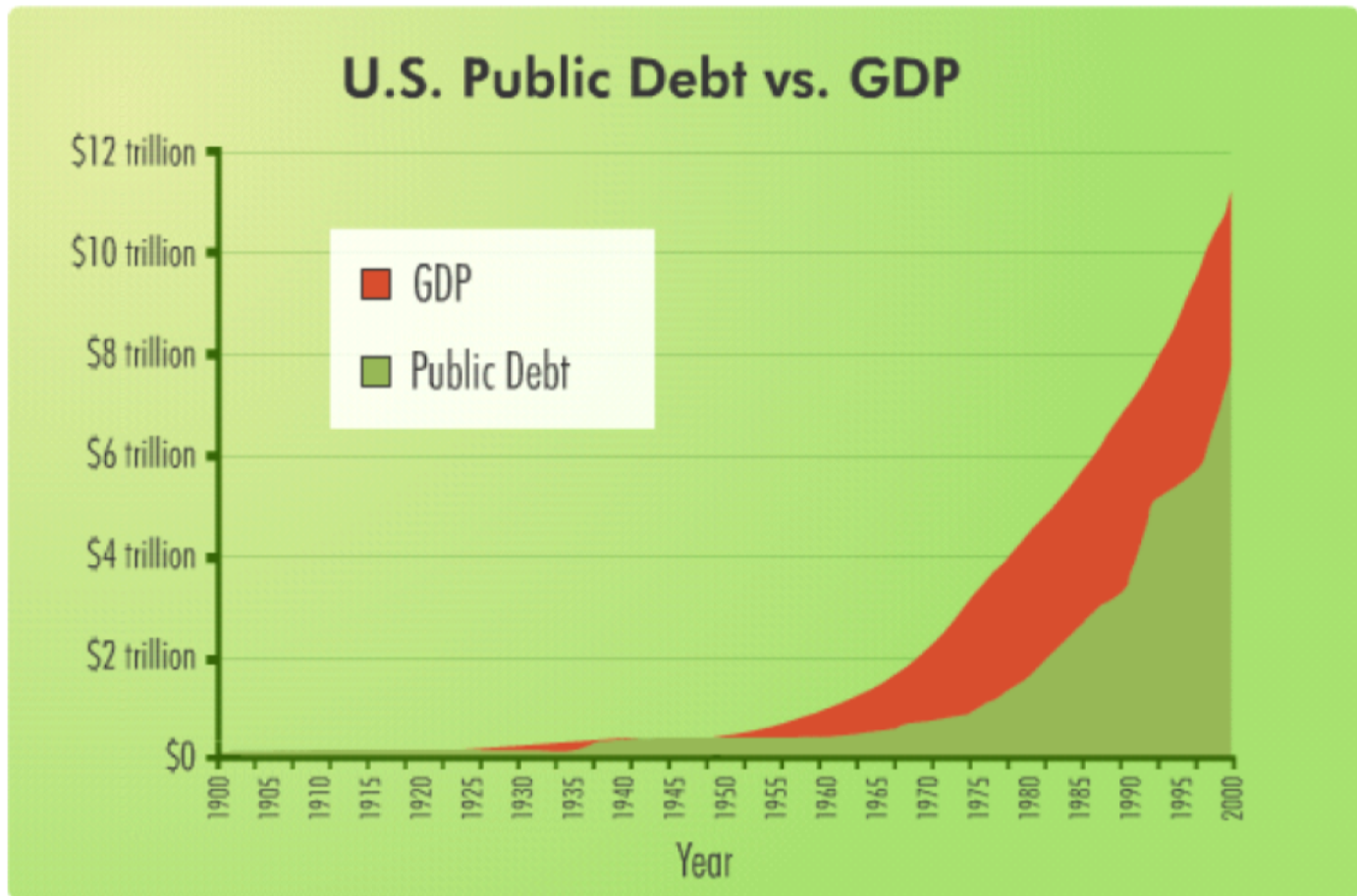


# Debt v. Deficit

Budget Deficits and Public Debt

close



III

part 1 / 1

# Questions for You

- What is the national debt?
- What caused the national debt?
- Where does the government get the money when it wants to spend more than it takes in?
- What is a budget deficit?
- What is a budget surplus?

# Budget Deficits and the National Debt

- ◎ **Balanced Budget-** a budget in which revenues are equal to spending
- ◎ The federal budget is almost never balanced
- ◎ **Budget Surplus-** a situation in which the government takes in more than it spends
- ◎ **Budget Deficit-** a situation in which the government spends more than it takes in

# The National Debt

- **National Debt-** the total amount of money the federal government owes to bondholders
  - The U.S. government is viewed as stable and trustworthy and can borrow money at a low interest rate

# The difference between **DEFICITS** and **DEBT**

- **Deficit-** the amount of money the government borrows for **one budget year**
- **Debt-** the sum of all government borrow up to that time that has not been repaid



# US Debt Clock.org

## US NATIONAL DEBT

**\$ 11,434,947,439,166**

## DEBT PER CITIZEN

**\$ 37,412**

## US GROSS DOMESTIC PRODUCT

**\$ 7,963,477,696,942**

## US SPENDING • YEAR TO DATE

**\$ 2,200,805,356,895**

## SPENDING PER CITIZEN

**\$ 6,928**

## US TAX REVENUE • YEAR TO DATE

**\$ 1,316,663,519,426**

## US BUDGET DEFICIT • YEAR TO DATE

**\$ 1,015,971,711,731**

## INCOME TAX

**\$ 5,594,378,751**

## PAYROLL TAX

**\$ 1,022,371,511**

## EST. MEDICARE FRAUD • YEAR TO DATE

**\$ 33,237,379,527**

## CORPORATE TAX

**\$ 164,729,400,706**

## SALES TAX, DUTIES, OTHER

**\$ 79,960,047,674**

[www.usdebtclock.org](http://www.usdebtclock.org)

## Largest Budget Items

### DEFENSE/WARS

**\$ 444,753,016,976**

### SOCIAL SECURITY

**\$ 358,670,409,742**

### MEDICARE/MEDICAID

**\$ 345,737,804,476**

### INTEREST ON DEBT

**\$ 144,718,414,900**

## Financial Meltdown

### US GOVERNMENT BAILOUTS

**\$ 11,809,631,160,865**

### EST. CURRENCY AND CREDIT DERIVATIVES

**\$ 643,783,576,207,126**

### LOSS OF US HOUSEHOLD WEALTH

**\$ 11,896,218,587,360**

### US PRIVATE DEBT

**\$ 7,111,201,614,806**

### CREDIT CARD DEBT

**\$ 982,086,943,152**

### EST. MEDICAL DEBT

**\$ 298,039,555,356**

### PVT. DEBT PER CITIZEN

**\$ 23,498**

### US POPULATION

**306.902.429**

### OFFICIAL • UNEMPLOYED

**15.056.508**

### FORECLOSURES • 2009

**1.217.123**

## **SSEMA2 The student will explain the role and functions of the Federal Reserve System.**

- a. Describe the organization of the Federal Reserve System.
- b. Define monetary policy.
- c. Describe how the Federal Reserve uses the tools of monetary policy to promote price stability, full employment, and economic growth.

# Federal Reserve Act of 1913

- Created the Federal Reserve System
- Composed of 12 independent regional banks
- Could lend money to other banks in times of need



# Structure of Federal Reserve System

- **Board of Governors-** the seven-member board that oversees the Federal Reserve System
  - Appointed for staggered 14 year terms (keeps members from being pressured politically)
  - President picks a chair for a 4 year term from the board of governors

# Structure of the Federal Reserve System

- **Federal Reserve Districts-** the twelve banking districts created by the Federal Reserve Act (one Federal Reserve Bank is located in each district)
- All nationally chartered banks are required to join the Fed
- Member banks own shares in the Fed and therefore gives the system of high degree of political independence

# Monetary Policy



# Monetary Policy DVD



# Monetary Policy

**The actions the Federal Reserve (Central Bank) takes to influence the level of GDP and the rate of inflation in the economy.**

# How Do They Do It?

- Tools of the FED
  1. Open Market Operations
  2. Discount Rate (Fed to Banks)
  3. Federal Funds Rate (bank to bank)
  4. Reserve Requirements

# Tools of the Federal Reserve

- **Open Market Operations-** the buying and selling of government securities to alter the money supply
  - Bond Purchases - In order to increase the money supply, the Federal Reserve Bank of New York buys government securities on the open market.
  - Bond Sales- When the Fed sells bonds, it takes money out of the money supply.
- **Discount Rate (Federal Reserve to Bank)-** the interest rate that banks pay to borrow money from the Federal Reserve

# Tools of the Federal Reserve

- **Federal Funds Rate (bank to bank)**- the interest rate that banks pay to borrow money from each other
- **Reserve Requirement**- the amount of money that a bank must keep on hand; set by the Federal Reserve



# How/When/Why

**If the economy needs a “boost” the Federal Reserve might:**

\_\_\_\_\_ bonds.

\_\_\_\_\_ interest rates.

\_\_\_\_\_ reserve requirements.

# How/When/Why

**If the economy needs to be “cooled off” the Federal Reserve might:**

\_\_\_\_\_ bonds.

\_\_\_\_\_ interest rates.

\_\_\_\_\_ reserve requirements.

**SSEMA3 The student will explain how the government uses fiscal policy to promote price stability, full employment, and economic growth.**

a. Define fiscal policy.

b. Explain the government's taxing and spending decisions.

# Fiscal Policy



# Fiscal Policy

**Actions taken by the Federal Government to influence the economy (business cycles).**

# How do they do it?

**Taxation (revenue)**

**Spending (expenditures)**

**-transfer payments-**

# Understanding Fiscal Policy

- Fiscal policies are used to achieve economic growth, full employment, and price stability.
- **Federal Budget-** a plan for the federal government's revenues and spending for the coming year
  - > Lists expected income
  - > Shows how much money will be spent

# Understanding Fiscal Policy

- **Fiscal Year-** a twelve-month period that can begin on any date (October 1-September 30 for the Federal Government)



# Fiscal Policy and the Economy

- **Expansionary Policies-** fiscal policies, like higher spending and tax cuts, that encourage economic growth
  - Used to raise the level of output in the economy
  - Encourage growth
  - Government spending increases aggregate demand

# Fiscal Policy and the Economy

- **Contractionary Policies-** fiscal policies, like lower spending and higher taxes, that reduce economic growth
  - Used when demand exceeds supply to slow the growth of the economy (GDP)
  - Used to slow or prevent inflation
  - Leads to a decrease in aggregate demand which leads to lower prices

# Limits of Fiscal Policy

- The government cannot change spending for entitlements
- Difficult to know the current state of the economy (GDP)
- Even more difficult to predict future economic performance

# How/When/Why

If the economy needs a “boost” the Federal Government might:

\_\_\_\_\_ taxes.

\_\_\_\_\_ spending.

# How/When/Why

**If the economy needs to be “cooled off” the Federal Government might:**

\_\_\_\_\_ taxes.

\_\_\_\_\_ spending.

# Fiscal and Monetary Policy Tools

Fiscal and Monetary Policy Tools		
	Fiscal policy tools	Monetary policy tools
Expansionary tools	<ol style="list-style-type: none"><li>1. increasing government spending</li><li>2. cutting taxes</li></ol>	<ol style="list-style-type: none"><li>1. open market operations: bond purchases</li><li>2. decreasing the discount rate</li><li>3. decreasing reserve requirements</li></ol>
Contractionary tools	<ol style="list-style-type: none"><li>1. decreasing government spending</li><li>2. raising taxes</li></ol>	<ol style="list-style-type: none"><li>1. open market operations: bond sales</li><li>2. increasing the discount rate</li><li>3. increasing reserve requirements</li></ol>