



Section 1: Guided Reading and Review

Understanding Fiscal Policy

A. As You Read

As you read Section 1, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: The president and Congress work through a budget process to draw up a spending plan for the following fiscal year.

1. Which part of the executive branch is responsible for preparing the president’s budget proposal? _____
2. Which congressional committees submit the final bills that authorize specific spending?

Main Idea: The federal government may use fiscal policy to try to make the economy run more smoothly.

3. Under what conditions might the government use expansionary fiscal policies? _____
4. Under what conditions might the government use contractionary fiscal policies? _____

Main Idea: The federal government has specific policies that it uses to influence the economy.

5. What are its two main expansionary policies? _____
6. What are its two main contractionary policies? _____

Main Idea: Although fiscal policies may appear to be powerful economic tools, they can be difficult to put into practice.

7. What kinds of entitlement programs make it difficult to change spending levels? _____
8. Why does it take so long to put fiscal changes into effect? _____

B. Reviewing Key Terms

Answer each of the following questions.

9. What is the federal budget? _____
10. What is the main function of the Congressional Budget Office? _____
11. What is the overall goal of expansionary policies? _____
12. What is the overall goal of contractionary policies? _____

Section 2: Guided Reading and Review

Fiscal Policy Options



A. As You Read

As you read Section 2, answer the following questions.

1. What failure of classical economics did the Great Depression highlight? _____

2. How did John Maynard Keynes explain the continuation of the Great Depression? _____

3. (a) According to Keynes, how could the Depression-era government make up for the drop in private spending? _____
(b) What did Keynes say the result would be? _____
4. (a) What economic data did Keynes say the federal government should track? _____

(b) For what purpose? _____

5. Why did Keynesian economics lose popularity in the 1960s and 1970s? _____

6. What is a stable economy? _____
7. When national income is low, how do taxes and government transfer payments help stabilize the economy? _____

8. According to supply-side economics and the Laffer curve, how do higher tax rates affect the economy? _____

9. What argument lies at the heart of supply-side economics? _____

10. How did President Kennedy propose to increase demand? _____

B. Reviewing Key Terms

Use a key term to complete each sentence.

11. An economy sustains maximum output for a period of time when it operates at _____.
12. The idea that in a free market, people act in their own self-interest, causing prices to rise or fall so that supply and demand will always return to equilibrium is the thinking in _____.
13. Taxes and transfer payments act as _____.
14. The idea that every dollar change in fiscal policy creates a greater than one dollar change in the economy explains the _____.

