

Order in the Economy!

The federal government in any society tries to maintain order and growth in the economy. Disorder in the economy leads to social unrest and political upheaval. Lack of economic growth leads to unemployment, which also generates unrest. If poor economic growth persists, a nation may even wind up unable to defend itself from attack or invasion. For instance, the economy of the USSR under communism could not sustain itself, which led to the breakup of the Soviet Union. Most modern governments take an active role in managing their economies through economic policies. These policies aim to maintain a stable currency and economic growth at a rate that balances inflation and unemployment.

Stabilization and Growth

While consumers and producers make most decisions that mold the economy, government activities have a powerful effect on the U.S. economy in many ways. Perhaps most importantly, the federal government guides the overall pace of economic activity, attempting to maintain steady growth, high levels of employment, and price stability. By adjusting spending and tax rates (fiscal policy) or managing the money supply and controlling the use of credit (monetary policy), it can slow down or speed up the economy's rate of growth -- in the process, affecting the level of prices and employment.

Recessions in Your Lifetime

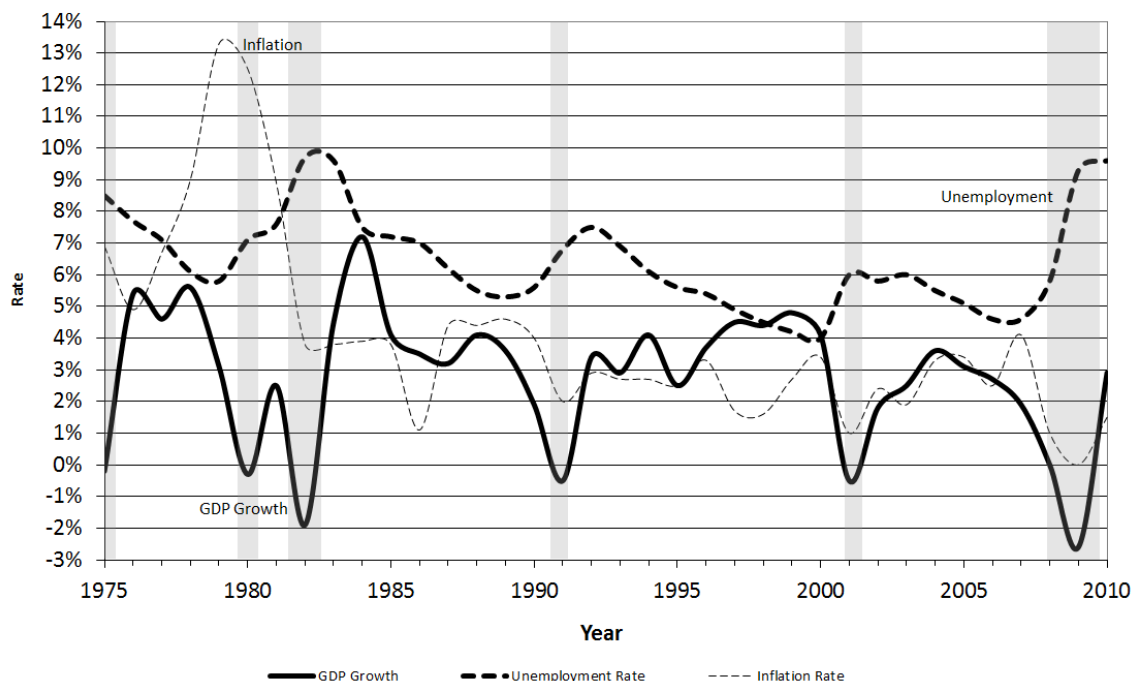
The Great Recession: December 2007 – June 2009

The subprime mortgage crisis led to the collapse of the United States housing bubble. Falling housing-related assets contributed to a global financial crisis, even as oil and food prices soared. The crisis led to the failure or collapse of many of the United States' largest financial institutions: Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers and AIG, as well as a crisis in the automobile industry. The government responded with an unprecedented \$700 billion bank bailout and \$787 billion fiscal stimulus package. The National Bureau of Economic Research declared the end of this recession over a year after the end date.

Early 2000s Recession: March 2001 – November 2001

The 1990s were the longest period of growth in American history. The collapse of the speculative dot-com bubble, a fall in business outlays and investments, and the September 11th attacks, brought the decade of growth to an end. Despite these major shocks, the recession was brief and shallow. Without the September 11th attacks, the economy may have avoided recession altogether.

GDP Growth, Unemployment, and Inflation

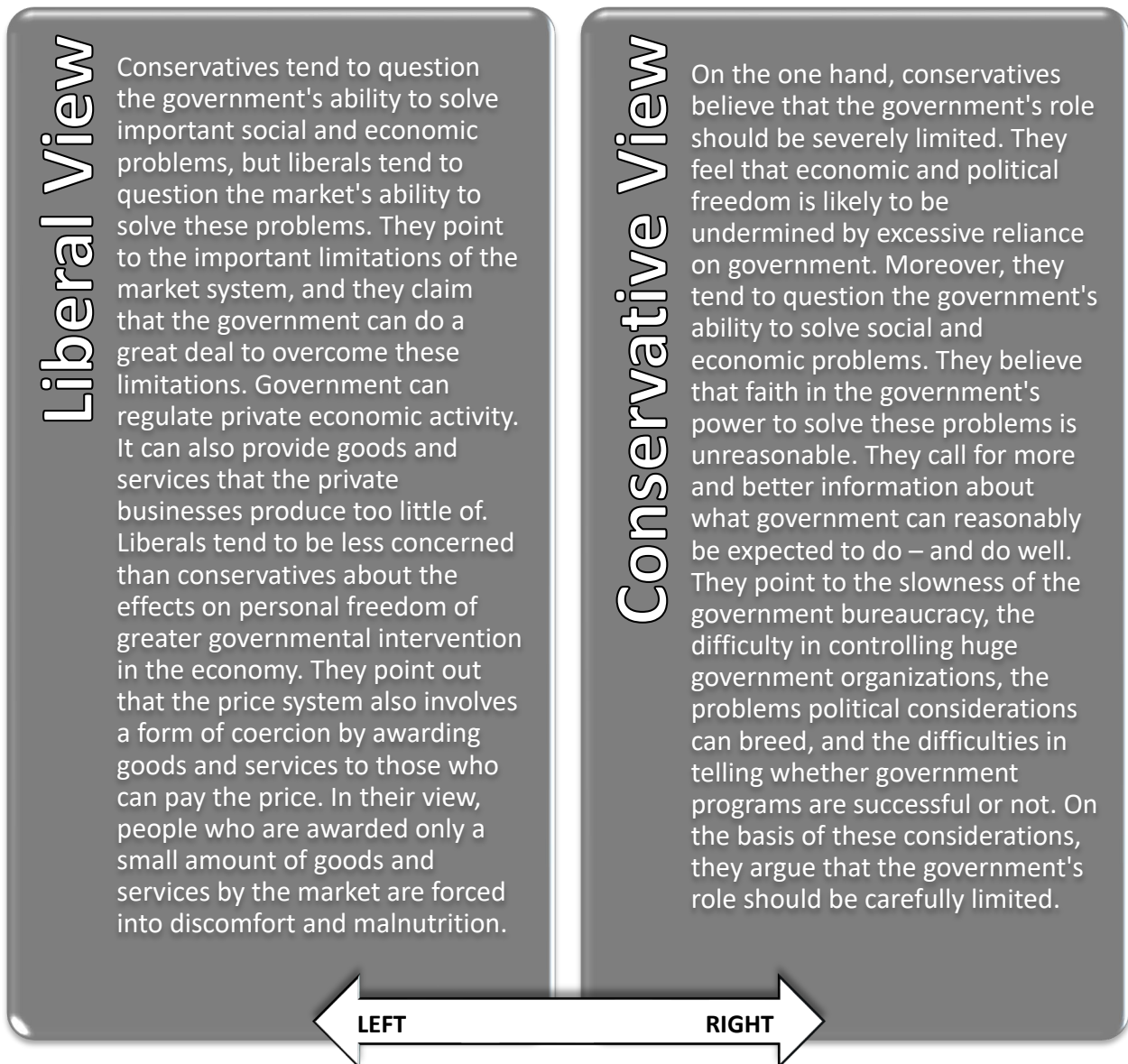


What Role Should the Government Play in the Economy?

Although it is generally agreed there is a role for the government to redistribute income in favor of the poor, provide public goods and services, and deal with externalities, there is considerable disagreement over how far the government should go in these areas, and what additional areas the government should be responsible for. Some people feel that "big government" is already a problem, that government is doing too much. Others believe that the government sector of the economy is being starved and that government should be allowed to do more. What is the appropriate role for government is a basic question, and one that involves a great deal more than economics.

ACTIVITY

We are going to divide the class into groups. Each group will be assigned a viewpoint – either conservative or liberal. Despite what your own personal beliefs may be, your group should come up with a strong argument supporting your group's assigned viewpoint. Use the information shown below to help. Your group should be prepared to make your argument to the class and face off against the groups with opposing viewpoints.



What Would You Do If ...

Your group will be assigned one of the scenarios below. Your job is to prepare of Post It Pad that details the following information:

1. Summarize the situation and explain what the problem is ...
 2. Explain what you would do personally to deal with the situation ...
 3. Come up with a “big picture” plan for how the situation could be fixed ...
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SCENARIO 1: Employment Crisis! – Unemployment rate soars to 30%

SCENARIO 2: Food Prices Out of Control! – Supply shortages cause food prices to double every month

SCENARIO 3: Gas Prices Hit \$10 per Gallon! – War in the Middle East causes gas prices to spike

SCENARIO 4: Bank Run! – People get nervous about our banking system and want their money back

SCENARIO 5: Terrorist Attacks! – Terrorist attacks hit several major cities across the country

SCENARIO 6: Zombie Apocalypse! – A strange virus is spreading that causes people to become “zombies”