



Section 1: Guided Reading and Review

What Are Taxes?

A. As You Read

As you read Section 1, supply the requested information in the spaces provided.
Explain what gives the government the power to collect taxes.

1. _____

List four ways in which the government's power to tax is limited.

2. _____

3. _____

4. _____

5. _____

List and define the three types of tax structures.

6. _____

7. _____

8. _____

List and define the characteristics of a good tax.

9. _____

10. _____

11. _____

12. _____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank provided.

13. The income, property, good, or service that is subject to tax is considered a _____.

14. The _____ is the final burden of a tax.

15. Sales tax is a type of _____ tax.

16. With a _____ the percentage of income paid in taxes remains the same for all income levels.

17. Income tax is a type of _____ tax.

18. The income that government receives is called _____.

Section 2: Guided Reading and Review

Federal Taxes



A. As You Read

As you read Section 2, fill in supporting facts or details under each main idea by answering each question.

Main Idea: Individual income taxes are imposed on the income of all individuals living in the country.

1. Why do employers withhold a set amount of your income? _____

2. What is taxable income? _____

Main Idea: Federal Insurance Contributions Act (FICA) taxes fund two large government programs.

3. What does Social Security provide? _____

4. What is Medicare? _____

Main Idea: Taxes are sometimes used to affect behavior.

5. What items are taxed for the purpose of changing behavior? _____

B. Reviewing Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- _____ 6. amounts that you can subtract from your income when filing taxes
- _____ 7. form used to file one's income taxes
- _____ 8. income on which tax must be paid
- _____ 9. tax on a monetary gift from a living person valued above a certain amount
- _____ 10. tax on the total value of the money and property of a person who has died
- _____ 11. tax payments taken out of an employee's pay before he or she receives a paycheck
- _____ 12. tax levied on foreign goods brought into the United States

Column II

- a. taxable income
- b. tariff
- c. tax return
- d. withholding
- e. deductions
- f. gift tax
- g. estate tax



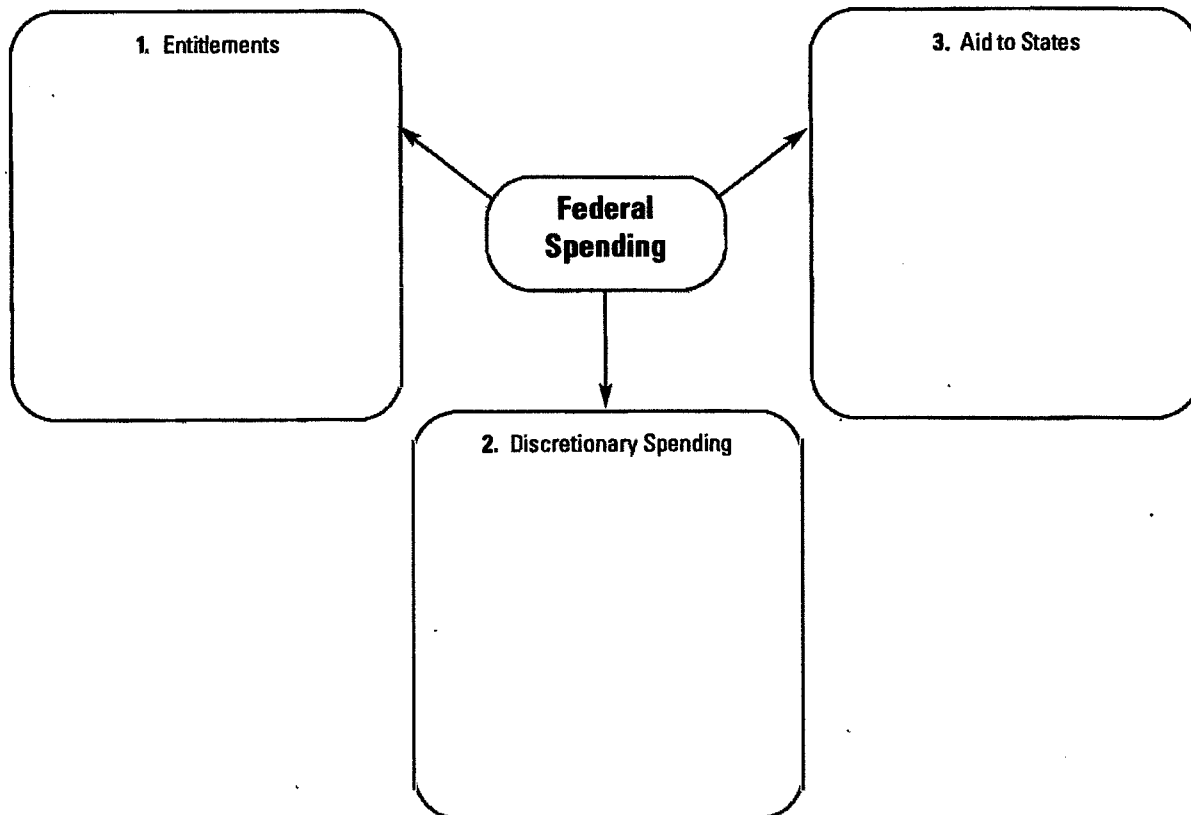
Section 3: Guided Reading and Review

Federal Spending

A. As You Read

As you read Section 3, provide examples of the categories of federal spending in the diagram below.

Categories of Federal Spending



B. Reviewing Key Terms

Define the following terms.

4. discretionary spending _____

5. mandatory spending _____

6. entitlement _____

Section 4: Guided Reading and Review

State and Local Taxes and Spending



A. As You Read

As you read Section 4, fill in examples of each item in the space provided.

Spending

(State Governments)

Provide examples of goods or services on which state taxes are spent for each category.

1. Education: _____

2. Public Safety: _____

3. Highways and Transportation: _____

4. General Welfare: _____

5. Arts and Recreation: _____

6. Administration: _____

(Local Governments)

Provide examples of goods or services on which local taxes are spent for each category.

12. Law enforcement: _____

13. Public facilities: _____

14. Public health: _____

Sources of Revenue

(State Governments)

Provide examples of each type of tax from which states earn revenue.

7. Sales Tax: _____

8. Excise Tax: _____

9. Income Tax: _____

10. Corporate Income Tax: _____

11. Business Taxes: _____

(Local Governments)

Provide examples of each type of tax from which local governments earn revenue.

15. Property Taxes: _____

16. Other Taxes: _____

B. Reviewing Key Terms

Answer each of the following questions.

17. What is the difference between real property and personal property? _____

18. What is the difference between an operating budget and a capital budget? _____

19. What is a sales tax? _____

20. What is the relationship between revenues and spending in a balanced budget? _____



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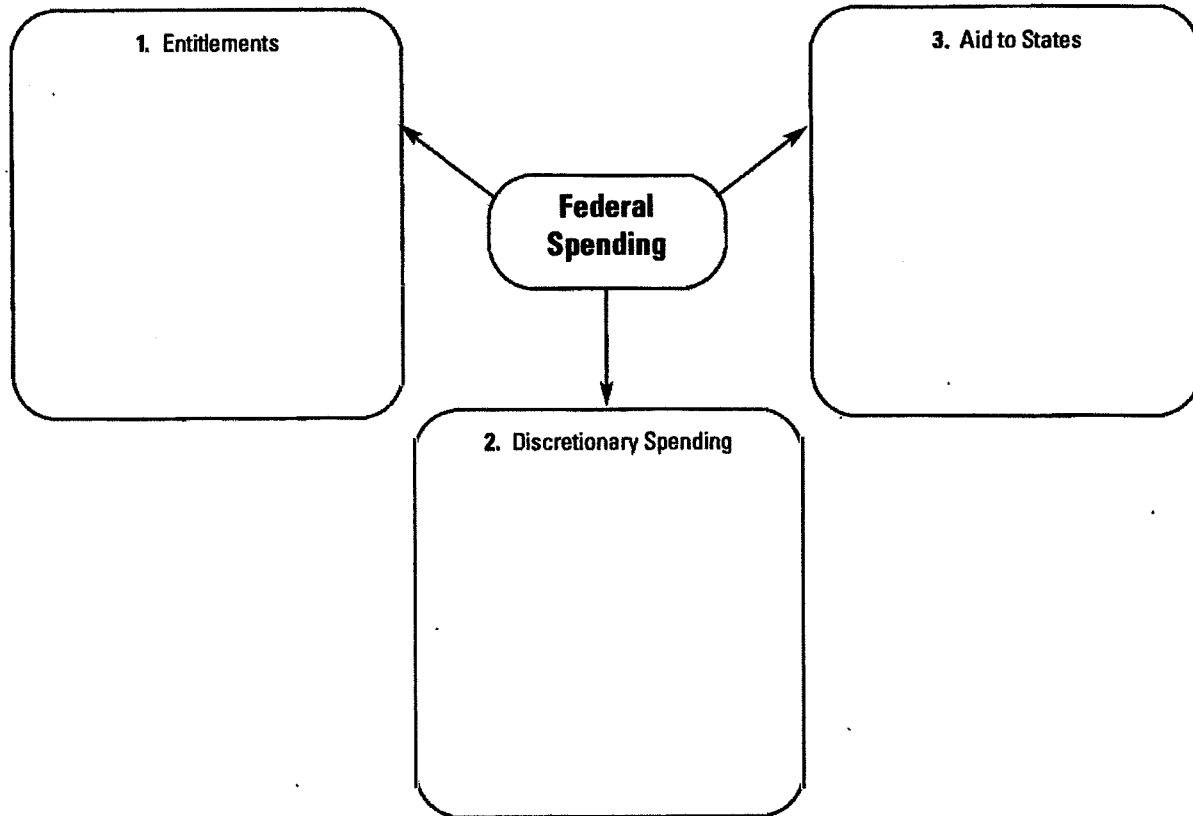
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Section 1: Guided Reading and Review

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 _____.



Section 3: Guided Reading and Review

Budget Deficits and the National Debt**A. As You Read**

As you read Section 3, complete the following sentences.

1. When the government increases the amount of money in circulation to cover large deficits, inflation results because _____

_____.
2. Wise federal borrowing allows the government to _____

_____.
3. The national debt will grow each year that _____

_____.
4. The national debt is owned by _____

_____.
5. Historically, national debt as a percentage of GDP rises during _____

_____.
6. The two problems of a national debt are that _____

_____.
7. The opportunity cost of servicing the debt is that _____

_____.
8. Today, many economists think the role of the federal government in the economy should be _____
_____.

B. Reviewing Key Terms

Define the following terms.

9. budget surplus _____
_____.
10. hyperinflation _____
_____.
11. national debt _____.
12. Treasury bill _____
_____.

Section 1: Guided Reading and Review

The Federal Reserve System



A. As You Read

As you read Section 1, supply the requested information.

1. Sources of confusion and problems with American banking between 1836 and 1907:

2. Why the Federal Reserve System was unable to hold off the Great Depression: _____

3. How the chair of the Federal Reserve's Board of Governors is appointed: _____

4. The function of each Federal Reserve Bank: _____

5. The makeup of each Federal Reserve Bank's board of directors: _____

6. Which banks join the Federal Reserve System and why they join: _____

7. The main function of the Federal Reserve's Federal Advisory Council: _____

8. Areas affected by announcements from the Federal Open Market Committee: _____

B. Reviewing Key Terms

Define the following terms.

9. monetary policy _____

10. Federal Reserve Districts _____

11. Federal Advisory Council _____

12. Federal Open Market Committee _____



Section 2: Guided Reading and Review

Federal Reserve Functions

A. As You Read

As you read Section 2, complete each numbered item in the chart.

The Federal Reserve in Action	
Service Roles	Regulatory Roles
1. sells, transfers, and redeems _____	8. collects daily reports on banks' _____
2. issues paper _____	9. may force banks to sell _____
3. acts as a clearing center for _____	10. may force problem banks to undergo _____
4. checks up on activities of member banks by sending out _____	11. subjects banks that go to the Fed for emergency loans too often to _____
5. uses findings and recommendations of Reserve Banks to approve or disapprove _____	12. regulates the nation's _____
6. protects consumers by enforcing _____	13. compares M1, M2, and M3 measurements with the likely _____
7. in severe recessions, provides commercial banks with _____	14. uses its tools to try to stabilize the nation's overall _____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

15. When a bank borrows money from another bank, the interest rate it pays is called the _____.
16. Ownership of more than one bank constitutes a _____.
17. When a bank customer writes a check, the check will go through the process of _____.
18. A bank's total assets minus its total liabilities make up its _____.
19. Banks repay loans from the Federal Reserve at a rate of interest called the _____.

Section 3: Guided Reading and Review

Monetary Policy Tools



A. As You Read

As you read Section 3, answer the following questions.

1. If you deposit \$1,000 of borrowed money in a bank checking account, by how much do you increase the money supply? _____
2. Why does the Federal Reserve establish a required reserve ratio? _____

3. What three tools could the Federal Reserve use to adjust the money supply? _____

4. What two effects, leading to an increased money supply, could a reduced RRR have? _____

5. Why does the Fed seldom, if ever, change bank reserve requirements? _____

6. How do banks respond to a lowered discount rate? _____

7. How does a raised discount rate affect bank loans and the money supply? _____

8. What effect does the Fed's purchase of government bonds have on the money supply? _____

9. How does the Fed's sale of bonds reduce the money supply? _____

10. Which of its monetary policy tools does the Federal Reserve use most often? _____

B. Reviewing Key Terms

Rewrite each statement below as needed to make it correct.

11. *Money creation* is the process by which money is manufactured. _____

12. The *required reserve ratio* is the ratio of reserves to loans required of banks by the Federal Reserve. _____

13. The size of loans created with each demand deposit is measured by the *money multiplier formula*. _____

14. *Open market operations* refers to the buying and selling of banks by the Federal Reserve. _____



Section 4: Guided Reading and Review

Monetary Policy and Macroeconomic Stabilization**A. As You Read**

As you read Section 4, complete the following sentences.

1. The cost of borrowing or having money is the _____.
2. If the money supply is high, interest rates will be _____.
3. Lower interest rates give firms more opportunities for _____.
4. The Fed may follow an easy money policy when the macroeconomy is experiencing a _____.
5. The Fed may follow a tight money policy when the macroeconomy is experiencing a _____.
6. The goal of stabilization policy is to smooth out fluctuations in the _____.
7. If expansionary policies take effect while the macroeconomy is already expanding, the result could be higher _____.
8. One reason for inside lags is that it takes time to _____.
9. A second reason for inside lags is that it can take additional time to _____.
10. Monetary policy can be put in place almost immediately by the _____.
11. The outside lag can be relatively short for _____ policy.
12. Outside lags for monetary policy can be lengthy because they primarily affect _____.
13. We rely more on the Fed to combat the business cycle because fiscal policy is often delayed by _____.
14. Economists who usually recommend enacting fiscal and monetary policies believe that economies _____.

B. Reviewing Key Terms

Define the following terms.

15. monetarism _____

16. easy money policy _____

17. tight money policy _____

18. inside lag _____

19. outside lag _____
