

Have You Seen The News Today?

A Brief Review: The Roles Of Government

Provide a Legal System

Create laws and provide courts, provide information and services to help economy function better, establish a monetary system, define and enforce property rights.

Provide Public Goods and Services

Provide goods and services that markets are unable or unwilling to provide, such as national defense.

Correct Market Failures (Externalities)

Taxes to reduce negative externalities, such as environmental pollution; subsidies to encourage positive externalities, such as education. Externalities exist when some of the costs or benefits associated with the

production or consumption of a product "spill over" to third parties other than the direct producer or consumer of the product.

Maintain Competition

Create and enforce antitrust laws; regulate natural monopolies.

Redistribute Income

Higher income tax rates for rich than for poor, provide social security, and aid to dependent children, Medicare, Medicaid.

Stabilize the Economy

Use government budgets and/or the money supply to promote economic growth, control inflation, and reduce unemployment.

Identify and Classify Newspaper Headlines

Classify each of the fictional news headlines under the appropriate Role of Government. Some headlines may represent more than one function. Be ready to justify your answers.

1. Federal Government Approves Crime Bill; Cities to Hire Additional Police
2. Minnesota to Sue Tobacco Firms to Recover Health Care Costs
3. Consumer Product Safety Commission Recall of Skirts Made in India
4. US Investigation Seeks to Find if Aluminum Producers Conspired to Cut Output, Broke Anti-Trust Laws
5. Insurer Files Suit Charging Bank Made False Claims
6. Higher Interest Rates Likely Despite Inflation Data
7. U.S. Government to Increase Aid to Education Next Year
8. Northeast's Petition for Tighter Curbs on Auto Emissions Approved by Environmental Protection Agency
9. Group of Economists Urges Federal Reserve System Not to Act Against Inflation Now
10. Hughes Aircraft to Lay Off 4,400 and Close Big Defense Plant
11. Social Security Payments to Increase by 4% Next Year: Cost of Living Allowance Up
12. Congress Approves Higher Income Tax Rate for Top Wage Earners

Provide a Legal System Headline: ____ Headline: ____ Headline: ____	Provide Public Goods & Services Headline: ____ Headline: ____ Headline: ____	Correct Market Failures (Externalities) Headline: ____ Headline: ____ Headline: ____
Maintain Competition Headline: ____ Headline: ____ Headline: ____	Redistribute Income Headline: ____ Headline: ____ Headline: ____	Stabilize the Economy Headline: ____ Headline: ____ Headline: ____

Say WHAT?

Write a brief (1-2 sentence) response to each of the questions below. This will serve as a good review for our first Macro test MONDAY.

1. What are public goods? Give 2 examples.
2. Explain what is meant by the term “externalities.” Give an example of both a positive and negative externality.
3. Why are property rights important in a market economy?
4. What are the benefits of competition to consumers? Businesses?
5. What is “self-interest” and why is it an important characteristic of a market economy?
6. A market economy is sometimes called the free enterprise system. What is “free enterprise”?
7. We need the government to do things for us, but we also want “limited government”. Why?
8. What is a monopoly and why is it a bad thing?
9. One of the government’s roles is to redistribute income. What is meant by this?
10. Why does the government need to “stabilize” the economy? Any guesses as to how it does this?