Viking Quest: Government Assignments

March 2015

Week: 23rd -27th

- *Read and complete Chapter 20 Study Guide handout pages 224-232*
- *Read and complete chapter 20 section assessments pages 554-570, Government textbook*
- *Complete Chapter 20 Assessment and Activities pages 572-573, Government textbook*

Name ______________________ Date ______________________ Class ______________________

STUDY GUIDE Chapter 20, Section 1

For use with textbook pages 555–559.

RAISING MONEY

KEY TERMS

taxes The money that people and businesses pay to support the activities of the government *(page 555)*

taxable income The total income of an individual minus certain deductions and personal exemptions *(page 555)*

dependent One who depends primarily on another person for basic needs such as food and shelter *(page 556)*

withholding The money an employer withholds from workers' wages as payment of anticipated income tax *(page 556)*

securities Financial instruments, including bonds, notes, and certificates, that are sold as a means of borrowing money with a promise to repay the buyer with interest after a specific time period *(page 559)*

national debt The total amount of money the government owes at any given time *(page 559)*

DRAWING FROM EXPERIENCE

Where do you get spending money? Allowance? Part-time wages? The federal government has its sources of money, too.

This section focuses on how the federal government raises money.

ORGANIZING YOUR THOUGHTS

Use the graphic organizer below to help you take notes as you read the summaries that follow. Think about which taxes are progressive and which are regressive.

PROGRESSIVE TAX:

REGRESSIVE TAX:

READ TO LEARN

Introduction *(page 555)*

The two major sources of the money the federal government takes in are taxes and borrowing.

Taxes as a Source of Revenue *(page 555)*

Taxes are payments by individuals and businesses to support the activities of government. The individual income tax is the federal government's biggest single source of income. The federal income tax is taken from a person's ***taxable income***. This is the total income of an individual minus certain deductions and personal exemptions. People may choose to take deductions for contributions to charity and other expenses.

Exemptions are based on the number of dependents a wage earner has. A ***dependent*** is someone who depends primarily on another person for such things as food, clothing, and shelter. The U.S. income tax is a progressive tax. This means it is based on a taxpayer's ability to pay. The more a taxpayer makes, the higher the tax rate.

The deadline for filing taxes each year is April 15. Employers withhold a certain amount from each paycheck. This ***withholding*** pays the income tax ahead of the filing date. The Internal Revenue Service (IRS) collects these taxes from employers. They also audit, or check more closely, a certain percentage of returns each year.

Corporations also pay income taxes. Their payments equal about 10 percent of the government's total revenues.

The government also collects money to pay for Social Security, Medicare, and unemployment compensation programs. This money is called social insurance taxes. Employers deduct it from each worker's paycheck and send the total to the federal government. Social insurance taxes are regressive taxes because people with lower incomes usually pay a larger portion of their income for these taxes than do people with higher incomes.

Excise taxes are paid on the manufacture, transportation, sale, or consumption of goods and services. Some excise taxes are called luxury taxes because they are placed on goods such as cigarettes and liquor, which are not considered necessities.

Taxes placed on goods coming into the United States are called custom duties, tariffs, or import duties. A high custom duty is called a protective tariff. These raise the price of foreign goods and make them less desirable to American buyers than American-made goods.

The federal government also collects estate taxes. These are collected on large amounts of property and money left by a person who dies. A gift tax is collected on gifts of money from a living person. The estate tax became controversial. The tax law passed by Congress and President Bush in 2001 gradually phases out the federal estate tax over the next several years.

1. List the kinds of taxes that supply money to the federal government.

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STUDY GUIDE (continued) Chapter 20, Section 1

Taxes and the Economy (page 558)

The tax system is very complex. It contains provisions that benefit certain groups. These are called tax loopholes. However, in the 1980s the tax system was even more complicated. Then Congress passed the Tax Reform Act of 1986. It reduced or ended many tax deductions, tax credits, and tax shelters, which often favored the wealthy. It also reduced the number of tax brackets or rates.

In 2003 President Bush signed the Job and Growth Act, a $1.35 trillion tax cut. This legislation, aimed at stimulating the economy, increased the child tax credit and gave millions of taxpayers an average tax reduction of over $1,000.

2. How did the Tax Reform Act of 1986 affect the tax system?

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Borrowing for Revenue (page 559)

The government borrows money by selling federal securities to individuals, corporations, and others. Government securities include bonds, notes, and certificates. They are popular with investors because they are safe and sometimes the interest they earn is not taxed. Small investors favor savings bonds.

When government spending is more than its income, it must borrow money. Government borrowing over time created the ***national debt.*** The size of the national debt affects the economy and the federal budget.

3. Why are government securities popular investments?

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Name ______________________ Date ________________ Class ______________________

STUDY GUIDE Chapter 20, Section 2

For use with textbook pages 560–564.

PREPARING THE FEDERAL BUDGET

KEY TERMS

fiscal year A 12-month accounting period *(page 560)*

uncontrollables Government expenditures required by law and resulting from previous budgetary commitments *(page 562)*

entitlement A required government expenditure that continues from one year to the next *(page 562)*

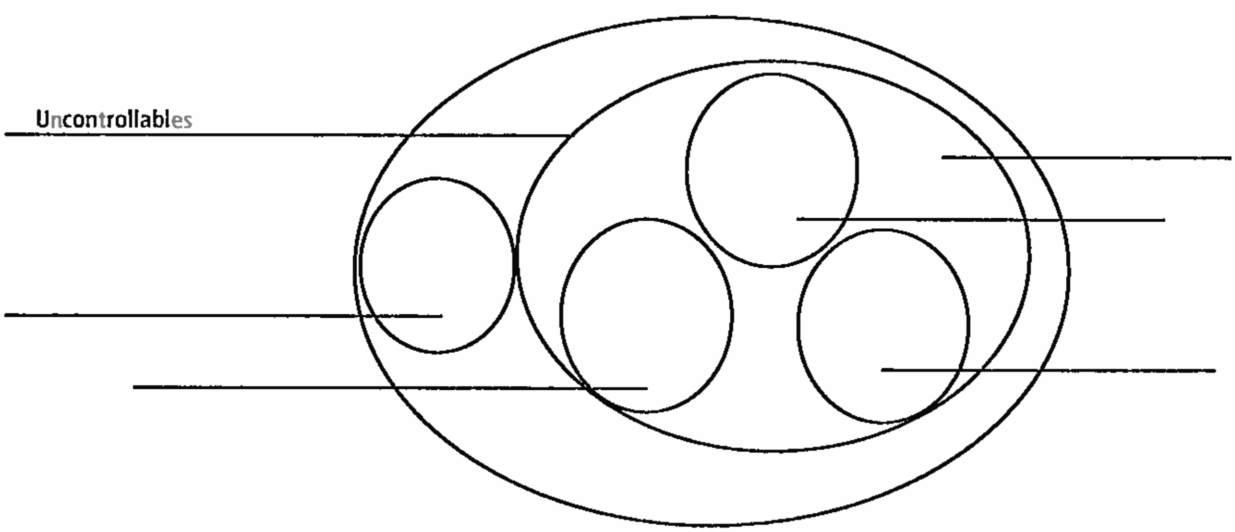
incrementalism The term used to explain that the total budget changes little from year to year *(page 564)*

DRAWING FROM EXPERIENCE

Does your family have a budget? A family budget usually allots money each month for expenses such as food and entertainment. Even more than a family, a government needs a budget to plan its expenses. This section focuses on how the federal budget is prepared.

ORGANIZING YOUR THOUGHTS

Use the graphic organizer below to help you take notes as you read the summaries that follow. Think about the different kinds of uncontrollables in the budget. Then label the circles.



STUDY GUIDE (continued) Chapter 20, Section 2

READ TO LEARN

Introduction *(page 560)*

The federal budget helps the government predict and control revenue and spending for each fiscal year. This is a 12-month accounting period from October 1 of one year to September 30 of the next year. The executive branch draws up the proposed budget under the president's leadership. Congress uses the president's budget to prepare a tax and spending plan to send back to the president.

Drawing Up the Budget *(page 560)*

The president is responsible for directing the preparation of the budget and making major decisions about national budget priorities. The actual day-to-day preparation of the budget is in the hands of the Office of Management and Budget (OMB).

Budget making begins in the spring and goes through the following steps:

A. The Director of the OMB takes the first set of figures to the president. The secretary of the treasury and the Council of Economic Advisers (CEA) help the president decide how well the budget fits the president's economic goals and policy.

B. The White House sends its decisions on the budget to the agencies and departments in the executive branch with guidelines to help each of them prepare their own final budgets.

C. The executive departments and agencies cut and add to bring each agency's budget in line with the president's decisions.

D. During the fall, the OMB submits a complete budget document to the president for final review and approval.

E. The administration rushes the president's budget to the printer. The president sends the formal budget to Congress with an annual budget message.

About 70 percent of the budget is made up of uncontrollables. These are expenditures required by law. Many of the uncontrollables are called entitlements. These are benefits which individuals have an established legal right to receive. Entitlements include Social Security, pensions for retired government employees, Medicare, Medicaid, and veterans' benefits. Another largely uncontrollable item is the interest that must be paid on the national debt.

1. Where does the president send his decisions on the first set of budget figures? Why?

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Congressional Budget Action *(page 562)*

The president draws up budget proposals, but no money may be spent until Congress approves it. Congress changes the president's budget as it sees fit. Chief lawmakers and the president often make compromises before the budget is passed.

The Congressional Budget Office (CBO) evaluates the overall federal budget for Congress. Experts on the committee report to Congress and balance out the OMB in the executive branch.

By the mid-1980s, the size of the national debt worried economists. So Congress passed the Gramm-Rudman-Hollings Act. This law tried to force Congress to reduce budget deficits. However, the budget deficit continued to grow because the president and Congress disagreed about spending priorities.

In 1990 Congress passed the Budgetary Enforcement Act. It divided the budget into three categories: domestic policy, defense, and international affairs. Spending that exceeded the budgeted limit in any of these three areas would come out of next year's funding for that area. Economic hard times in 1991 derailed the deficit-cutting plans. Then in 1993, tax income increased. Some members of Congress called for a balanced budget. Other members of Congress and President Clinton were satisfied that the annual deficit was falling.

The budget-making process in Congress generally follows these steps:

A. House and Senate Budget Committees review the major features of the president's budget proposals. On April 15 they prepare a concurrent resolution. This resolution sets forth the total federal spending and tax plan for the coming fiscal year.

B. Reconciliation occurs between April 15 and June 15. House and Senate committees use this time to reconcile, or fit, the spending and taxing plans with existing plans. They create a reconciliation bill that both the House and Senate must approve.

C. The House then passes an appropriation bill. This officially sets aside money for all expenditures approved in the reconciliation process. This bill is supposed to be finished by June 30 but is often delayed.

D. On October 15 the OMB issues an official report and may make cuts in the budget to fit deficit-reduction targets.

2. What happens in the preparation of the budget between April 15 and June 15?

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Incremental Budget Making *(page 564)*

Analysts call the budget-making process ***incrementalism.*** This means that the total budget changes only a little from one year to the next. So the best predictor of this year's budget is last year's budget. Federal agencies usually can assume they will get the same amount of funding as last year. Also, most budget debates focus on small increases or decreases for an agency, not completely doing away with agencies.

3. How does incrementalism in the budget affect the work of federal agencies?

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Name ______________________ Date ________________ Class ______________________

STUDY GUIDE Chapter 20, Section 3

For use with textbook pages 566–570.

MANAGING THE ECONOMY

KEY TERMS

fiscal policy A government's use of spending and taxation to influence the economy *(page 567)*

monetary policy A government's control of the supply of money and credit to influence the economy *(page 567)*

gross national product (GNP) The sum of all goods and services produced in a nation in a year *(page 568)*

discount rate The interest rate the Federal Reserve System charges member banks for loans *(page 569)*

reserve requirement The percentage of money member banks must keep in Federal Reserve Banks as a reserve against their deposits *(page 570)*

open market operations The method the Federal Reserve System uses to affect the economy by buying or selling government securities on the open market *(page 570)*

DRAWING FROM EXPERIENCE

What would happen if the students and teachers at your school stopped spending money at nearby stores? Do you think store owners would feel the effect? If the government stopped spending money, the national economy would certainly feel the effects.

This section focuses on how the government manages the economy.

ORGANIZING YOUR THOUGHTS

Use the graphic organizer below to help you take notes as you read the summaries that follow. Think about the effects when the Federal Reserve Board makes a decision.

CAUSE		EFFECT
The Fed lowers the discount rate.	→	Member banks . . .

READ TO LEARN

Introduction (page 566)

Officials in both the executive and legislative branches try to promote a healthy economy.

Where the Money Goes (page 566)

In addition to paying interest on the national debt, the federal government spends its money in the following major areas:

Direct Benefit Payments Almost half of every dollar goes for Social Security, social-welfare, and health-care programs. The biggest entitlement program is Social Security.

National Defense Since 1991 the federal government has gradually reduced the share of the budget that goes to defense. In 1996, defense spending represented about 17 percent of the budget, down from 22 percent in 1992. However, by 2003 the defense budget had increased by $81 billion from its 2000 figure.

Discretionary Spending A large part of tax revenues are spent on the environment, transportation, criminal justice, and other areas. Much of this money is in the form of grants to states and localities. They use the federal money for road repair, public housing, police training, school lunch programs, flood insurance, and more.

1. How is almost 50 percent of every tax dollar spent?

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Fiscal and Monetary Policy (page 567)

Most Americans expect the government to play an important part in money matters. To influence the economy, the government uses the following methods:

Fiscal policy uses government spending and taxes to influence the economy.

Monetary policy controls the supply of money and credit to influence the economy.

The federal budget shapes how much money the government will spend and how much it will collect through taxes and borrowing. The government may spend more money than it takes in to put more people back to work and increase economic activity. Or it may lower taxes to give consumers and investors more purchasing power. As a result, the United States had a budget deficit for many years because people thought it would benefit the economy. By the early 1980s, however, economists worried about the effects of debt on the nation's future. However, some economists said that the deficit as a percentage of the ***gross national product*** (GNP) was more important than the deficit alone. They pointed out that the deficit represented only about 5 percent of the GNP. However, by 2003, interest payments on the debt nearly equaled half of that spent for defense.

Today, the federal government tries to control the economy through its monetary policy. This involves controlling the supply of money and credit—the cost of borrowing money. The government controls the money supply through the Federal Reserve System.

2. Decribe two ways the government tries to control the economy today.

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The Federal Reserve System *(page 568)*

The Federal Reserves System, known as the "Fed," is the central banking system of the United States. When banks need money, they go to the Fed. The United States is divided into 12 Federal Reserve Districts. Each district has one main Federal Reserve Bank. In addition, most Federal Reserve Banks have branch banks within their districts. About four out of every ten banks in the United States are members of the Federal Reserve. They control the largest share of total deposits in the nation.

A seven-member board directs the entire Federal Reserve System. The president appoints the members, and the Senate approves them. Then the president selects one member to chair the board. Afterward, the president and Congress have little control over the board. Its members make economic decisions without fear of political pressure.

The board has two major responsibilities:

A. It supervises the Federal Reserve Banks.

B. It determines the general money and credit policies of the United States.

The Fed uses the following tools to control the nation's banks:

A. The Fed can lower or raise the ***discount rate.*** This is the rate the Fed charges member banks for loans. Low discount rates encourage banks to borrow money from the Fed to make loans to customers. High discount rates mean banks will borrow less.

B. The Fed may raise or lower the ***reserve requirement*** for member banks. Member banks must keep a certain percentage of their money in Federal Reserve Banks as a reserve against their deposits. If the Fed raises the reserve requirements, the banks must leave more money with the Fed. Thus, they have less money to lend. When the Fed lowers the reserve requirement, member banks have more money to lend.

C. The Fed can put money into the economy by buying government bonds and other securities on the open market. These ***open-market operations*** help expand the economy. The Fed may also sell government securities. This causes the economy to slow down.

The president and Congress largely control taxing and spending. They have little control over the Fed. The Fed's policies may help or hinder programs of the president or of Congress. Some people would like to make the Fed less independent. Others say that the nation needs a group outside politics to watch over monetary policy.

3. What are the major responsibilities of the Federal Reserve Board?

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