

IT'S YOURS – IT'S MINE

Performance Standard 15E.J

Use the circular flow model of the U.S. economy to explain how government policy and decisions can affect economic conditions accordingly:

- *Knowledge*: Describe how government monetary and fiscal policies are implemented, identify how monetary and fiscal policies can benefit or hurt specific groups of people.
- *Reasoning*: Explain how government policies redistribute income, why such policies exist, and the social costs and benefits of such policies.
- *Communication*: Produce a circular flow model that is logically organized and well-detailed; express all ideas in a way that provides evidence of knowledge and reasoning processes.

Procedures

1. ***In order to understand the impact of government policies and decisions on production and consumption in the economy (15E)***, students should experience sufficient learning opportunities to develop the following skills:
 - Identify government policies that are designed to directly redistribute income and explain why such policies exist.
 - Use the circular flow model of the U.S. economy to explain monetary and fiscal policies.

Note: Have students study and discuss the economic concept of the circular flow model of the U.S. economy. They should also become familiar with government monetary and fiscal policies designed to influence the economy.
2. Have students review and discuss the assessment task and how the rubric will be used to evaluate their work.
3. Ask each student to draw a diagram of the circular flow model of the U.S. economy and an Economics textbook to describe with specific examples how government policy and decisions can affect economic conditions as follows:
 - Explain how government policies redistribute income, why such policies exist, and the social costs and benefits of such policies.
 - Include information and arrows to show specifically how government monetary and fiscal policies are typically implemented.
 - Include specific groups of people, appropriately placed on the chart, that benefit or are hurt from monetary and fiscal policies.
 - Include additional arrows to show the direction of money to or from these groups.
4. Evaluate each student's work using the Social Science Rubric as follows and add the scores to determine the performance level:
 - *Knowledge*: The description of how government monetary and fiscal policies are implemented was complete and accurate, the description of how monetary and fiscal policies can benefit or hurt specific groups of people.
 - *Reasoning*: The explanation of how government policies redistribute income, why such policies exist, and the social costs and benefits of such policies was thorough and accurate.
 - *Communication*: The diagram and the written explanation were well-focused, well-organized, and well-detailed; the knowledge and reasoning were completely and effectively communicated.

Examples of Student Work follow

Resources

- Economics textbooks
- Social Science Rubric

Time Requirements

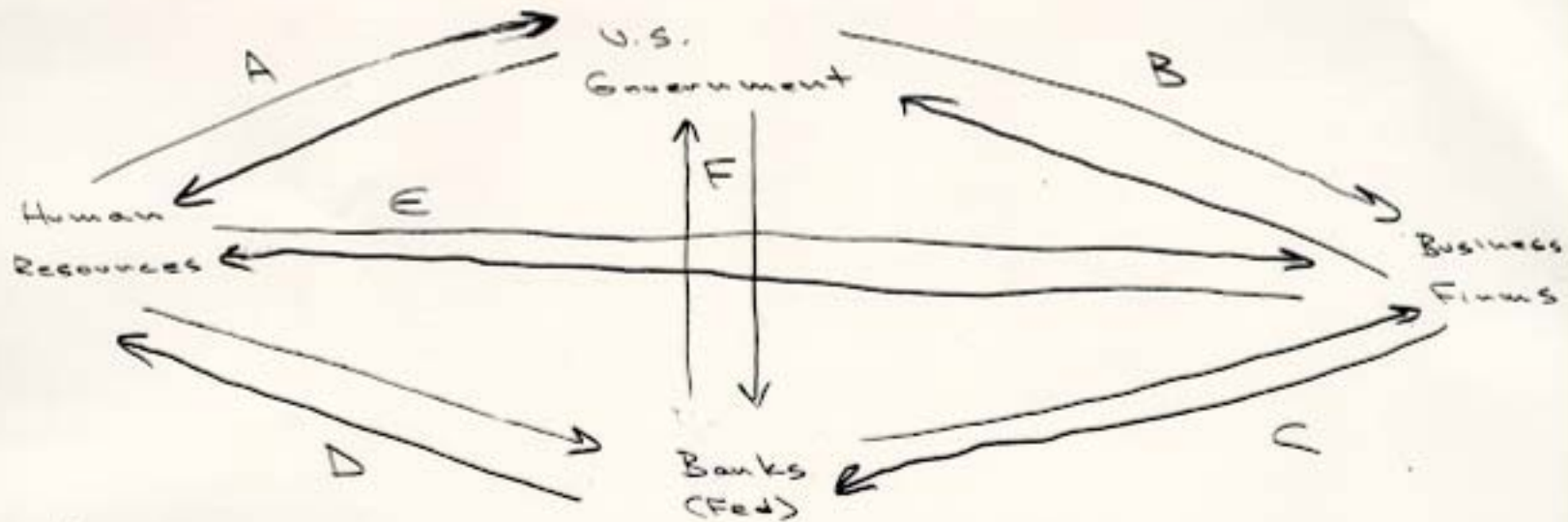
- One class period

Economics

Circular Flow

"Meets"

A major recession has hit the United States. Unemployment has reached 10% while inflation remains very low at 1%. Develop a **fiscal** and **monetary** policy to deal with this economic downturn while utilizing the circular flow to explain your policies. Be sure to identify the major economic sectors and draw arrows identifying the flow of the major variables within the circular flow. Refer to the circular flow to show how your policies will pull the United States out of this recession.



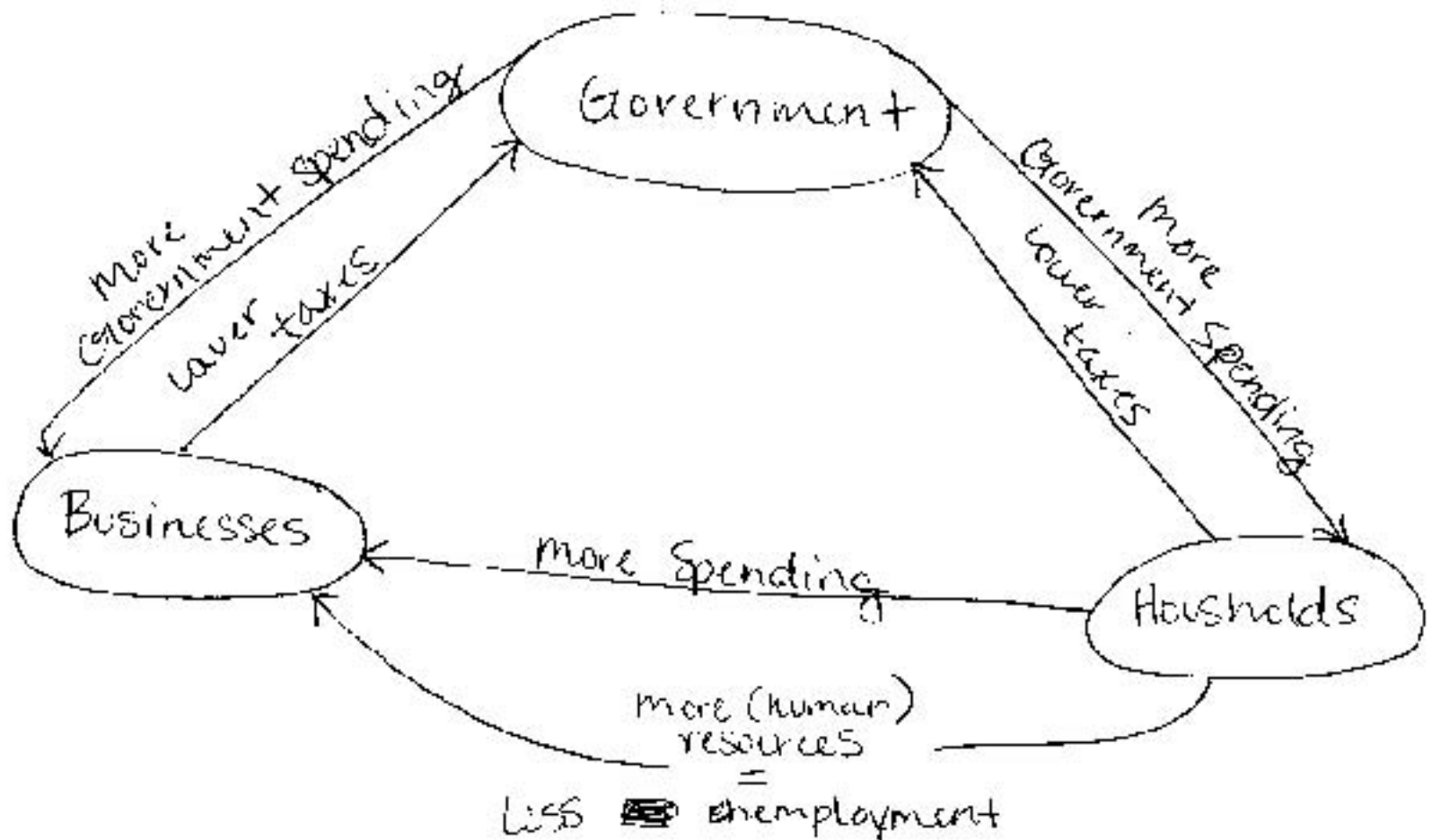
My fiscal policy is much like the Keynesian intervention. The U.S. government will increase spending and decrease taxes. The increased spending is apparent at point B. The U.S. government will give more money to the business firms through their spending, while the businesses give the government finished goods. The decreased taxes is apparent at point A. Human resources will spend less money paying taxes and thus increase their money supply. This will allow them to buy more products from the businesses (point E) giving businesses more money.

My monetary policy would be a decrease in discount rates to convince banks to decrease interest rates. This would allow more money to be loaned out (D + C) and thus increase spending. This would benefit human resources and businesses. Also the the interest rate decrease would lead (or come from) the Fed buying government securities (point F), which would benefit our government.

Economics Circular Flow

"Exceeds"

A major recession has hit the United States. Unemployment has reached 10% while inflation remains very low at 1%. Develop a fiscal and monetary policy to deal with this economic downturn while utilizing the circular flow to explain your policies. Be sure to identify the major economic sectors and draw arrows identifying the flow of the major variables within the circular flow. Refer to the circular flow to show how your policies will pull the United States out of this recession.



During a recession when unemployment is up and inflation is down, there are many ways to change fiscal and monetary policy to help bring the economy back to its original state. The government can stimulate economic growth by spending more and taxing less. This method is called "pump-priming". As shown in the flow chart above, if the government is spending more on goods and services for the nation it will help the households spend more money on goods in the economy and will also help to expand businesses. The Federal Reserve should buy bonds which will increase the money supply. This in turn will lower interest rates allowing businesses to invest and expand to create new jobs. The lowered interest rates will also entice the households to borrow more money for cars, houses, etc.. This will bring more money into the economy and solve the problem of a recession and unemployment.