📑 Chapter 17 Project

Government Budgets and Fiscal Policy

Purpose

In this chapter, you have learned how the government collects tax revenue and utilizes that revenue in both spending and transfers. You have also learned about how the government uses fiscal policy in an effort to stabilize the economy and the challenges associated with doing so.

The purpose of this project is to identify the role of fiscal policy and to distinguish between ways of carrying out expansionary fiscal policy.

Directions

This project has two parts. In the first, you will work on your own to evaluate sources of federal government tax revenue and identify both challenges and benefits of using fiscal policy to promote a smooth business cycle.

In the second, you will work in a group to debate methods of allocating fiscal stimulus to increase aggregate demand.

Part 1 - Identifying the Role of Fiscal Policy

The Tax Foundation provides a historical record of the tax brackets and rates from year to year. In 2022, the payroll taxes for Social Security were imposed at a rate of 12.4% up to a certain wage limit; in this case, it is set at $147,000. Medicare, on the other hand, is fixed at 2.9% with no upper ceiling. The following income tax bracket (Table 1 in Lesson 17.2) shows the tax rate assigned to a single taxpayer's income in 2022.

Income	Tax Rate
$0–$10,275	10%
$10,276–$41,775	12%
$41,776–$89,075	22%
$89,076–$170,050	24%
$170,051–$215,950	32%
$215,951–$539,900	35%
$539,901+	37%

In 2022, Ray earned an income of $60,000. Joan earned $30,000, and Para earned $180,000. Using the information provided, answer the following questions:

- Who will pay the highest marginal tax rate?

- Who will pay the lowest marginal tax rate?

- Who will pay the highest payroll tax rate from their check for Medicare?

- Who will pay the lowest payroll tax rate from their check for Social Security?

- Evaluate the validity of the following statement. Is this statement accurate? Why or why not?

  ○ A progressive income tax rate helps promote smoother business cycles.

- After studying the differences between expansionary and contractionary fiscal policy, which policy do you believe would be the most politically challenging to implement?

Part 2 - Debating Approaches to Expansionary Fiscal Policy

This part of the assignment will involve two debate teams. Each team, consisting of two classmates, will conduct research to support one of the following positions.

Position A:

Expansionary fiscal policies used to increase aggregate demand during a recession should be delivered in the form of tax cuts. Present the benefits of tax cuts for aggregate demand, historical examples that support this case, and potential negative consequences associated with the alternative of increased government spending.

Position B:

Expansionary fiscal policies used to increase aggregate demand during a recession should be delivered in the form of increased government spending. Present the benefits of increased government spending for aggregate demand, historical examples that support this case, and potential negative consequences associated with the alternative of reducing tax rates.

Who did you work with, and what position did your team represent?

What were your team's primary arguments? These arguments should be supported with historical examples.

Which students represented the opposing debate team?

What were the primary arguments of the opposing team?

After discussing and considering the arguments presented by both debate teams, what allocation of tax cuts and government spending would you suggest for a stimulus package? This question should be answered individually by each debate team member.

☑ Checklist

Part 1

☐ Consider the data in Table 1.

☐ Answer the provided questions.

☐ Evaluate the given statement about progressive income tax.

☐ Differentiate challenges of expansionary and contractionary fiscal policy.

Part 2

☐ Form a debate team.

☐ Choose a position.

☐ Develop your team's argument.

☐ Consider and compare arguments of the other team.

☐ Consider your suggestion for a stimulus package.