**MStep Review Notes**

***Federal Government- Revenue Sources (Where they get their money)***

* Individual Income taxes
* FICA
* Borrowing

**State Governments**

* Intergovernmental revenue
* Sales taxes
* Individual income taxes

**Local Governments**

* Intergovernmental revenue
* Property taxes
* Public utilities

***Government Spending- What the Government Spends Money On***

* + **Federal**
    - Social Security
    - National Defense
    - Medicare
  + **State Spending**
    - Intergovernmental expenditures
    - Public Welfare
    - Unemployment and workers’, compensation, retirement
  + **Local**
    - Elementary and Secondary Education
    - Other
    - Utilities

**Federal Reserve = 12 Banks**

**Federal Goals - Macroeconomic Goals-**

* Economic Growth- Economy continues to improve
* Low Inflation- Prices increase very slowly
* Low Unemployment- Everyone has a job

**Monetary Policy Tools-** actions taken by The Fed to influence the availability and cost of money and credit as a means of helping to promote national economic goals

**Open Market Operations (OMO)-** The Fed either buying or selling bonds to central banks

**Reserve Requirement-** the amount of $ banks are required to keep in house (amount they can loan out)

**Discount Rate -**the interest rate charged to commercial banks and other depository institutions on loans they receive from The Fed.

To **INCREASE** money being circulated ($ in the economy) the Fed can:

* Lower the Reserve Requirement
* Lower Discount Rates
* Buy Bonds

(It’s ILL B!)

To **DECREASE** money being circulated ($ in the economy) the Fed can:

* Higher the Reserve Requirement
* Higher Discount Rates
* Sell Bonds

**Easy Money Policy** = Lower interest rates = inflation

**Tight Money Policy** = Higher interest rates = deflation

***Role/Responsibilities of the Government***

* **Protector**- make sure products are not harmful and are as described
* **Provider**- Provide goods and services (ex. Welfare, military protection)
* **Regulator**- Make sure everyone is able to make money and deal with foreign trade

***Economic and Social Goals***

* Full employment- Everyone has a job
* Economic Freedom- People can do as they please
* Economic Growth- Economy continues to improve
* Price Stability- Prices stay the same or change very little
* Economic Equity- Everyone is treated fairly (ex. Minimum wage)
* Economic Efficiency- We are using all of our resources as we should
* Economic Security- People aren’t worried about the economy

***Types of Economies***

* + **Market-**
    - * (+)The people make most economic decisions
      * (-) People sometimes lack basic needs (ex. Healthcare)
  + **Command-**
    - * (+) Government provides for basic needs
      * (-) The government COMMANDS everything
      * (-) People have no incentive/desire to improve or do their job well
  + **Traditional-**
    - * (+) Everyone knows their role
      * (-) No new ideas/technology. Basically living like the Amish.

***GDP- 3 ways to measure it***

* + Production
  + Spending
  + Income

***Inflation***

* **Creeping inflation-** Inflation in the range of 1-3% per year (what we typically have)
* **Hyperinflation-** Inflation in the range of 500% and above per year
* **Stagflation-** A period of stagnant economic growth coupled with inflation
* **Indexation-** When some dollar amount is automatically corrected for inflation, the amount is said to be indexed for inflation
* **Cost-Push Inflation-** An increase in the price of making a product = increase in the price of the product