LGA Personal Finance/Economics Class

*Vocabulary and Notes*

***Government and Economy – February 18, 2014***

**Role of Government**

1. *One role of government is to provide goods and services that private businesses do not provide.*

Private goods – goods that, when consumed by one individual, cannot be consumed by another \*\*Most goods

\*Exclusion principle – a person is excluded from using that good or service unless he or she pays for it

\*consumption of private goods and services are subject to this principle

Public goods– goods that can be consumed by one person without preventing the consumption of the good by another

\*Nonexclusion principle – no one is excluded from consuming the benefits of a public good whether or not he or she pays

\*examples – public parks, public libraries, museums, highways, and street lighting

1. *The government also handles externalities.*

Externalities – the unintended side effect of an action that affects someone else not involved in the action

\*Positive externalities - Governments providing public goods to provide positive externalities. Example – roads

\*Negative externalities – Example – water pollution

1. *The government encourages competition in the economy.*

Monopoly – market controlled by a sole provider of a good or service

Antitrust laws – laws to control monopoly power and the preserve and promote competition

\*Examples – Sherman Antitrust Act of 1890, Standard Oil Company 1911, 1970s American Telephone and Telegraph (AT&T)

Merger – combination of two or more companies to form a single business

1. *Government agencies make sure that businesses act fairly and follow the laws.*

Natural monopoly – a market situation in which the costs of production are minimized by having a single firm produce the product \*\*In exchange for having the market all to itself, the firm agrees to be regulated by the government. Examples – gas, electricity, water

\*Advertising (Federal Trade Commission) and Product Labels (Food and Drug Administration)

\*Consumer Product Safety Commission - Recall – a company pulls a product off the market or agrees to change to make it safe

**Measuring the Economy**

Real GDP – an economy’s production after the distortions of price increases have been removed

Business cycle – the alternating periods of growth and decline of the economy

Economic expansion – when real GDP goes up

Peak – highest point in the expansion

Recession – when real GDP goes down for six straight months

Civilian labor force – all civilians 16 years old or order who are either working or are looking for work

\*represents about half of the people in the United States

Unemployment rate – percentage of people in the civilian labor force who are not working but are looking for jobs

Fiscal policy – changes in government spending or tax policies

Inflation – sustained increase in the general level of prices – hurts the economy because it reduces the purchasing power of money and may alter the decisions people make

Consumer Price Index (CPI) – a popular measure of the price level, the government samples prices every month of 400 products commonly used by consumers to keep track of inflation

**Government, Economy, and You**

Income Equality

**Poverty**

\*Welfare Programs

\*Food stamps – government coupons that can be used to purchase food

\*Women, Infants, and Children (WIC) Program – provides help with nutrition and health care to low-income women and children up to age 5

\*Income Assistance

Supplemental Security Income (SSI) – payments to blind or disabled people and to persons 65 and older

**Tax Policies**

Progressive income tax – the tax rate is lower at lower incomes and higher for higher incomes

Earned Income Tax Credit (EITC) – tax credits to qualified workers