



Snacks—Deficit and Debt Direction Connection

Consider using the following high school activity to help students understand how the federal budget and the national debt are impacted by changes in the state of the economy or other events. Students will be asked to predict the effect of changes in the economy and events on tax revenue, government spending, the federal budget and the national debt.

Deficit and Debt Direction Connection

An exercise to analyze the effects of changes in the economy and other events on the federal budget and national debt

CEE Content Standards: 20

NCSS Content Strand: 7

Audience: High School

Objectives:

- Students will recognize the different sources of government revenue and categories of government spending.
- Students will be able to analyze how a change in the state of the economy or an event may affect the level of government revenue or spending.
- Students will be able to analyze how a change in government revenue or spending will affect the level of the federal budget surplus or deficit and the national debt, all else constant.

Materials:

- Visual: Government Revenue and Spending
- Teacher Resource: Economic Scenarios cut into slips (for teacher only)
- Handout: Arrow for each student

Procedure:

1. Introduce the lesson to students by explaining that they will be learning how tax revenue, government spending and in turn, the federal budget and the national debt are affected by the economy and other events.
2. Show and discuss the Visual: Government Revenue and Spending with the class.
3. Break the students into four large groups. One group will represent government tax revenue, one will represent government spending, one will represent the federal budget deficit, and one will represent the national debt.
4. Have members of each group sit together.
5. Pass out a copy of Handout: Arrow, a sheet with a large arrow on it to each student.

6. Explain that you are going to choose a scenario at random and present it to the students.
7. Students are to decide how each scenario would impact their group (revenue, spending, deficit, or debt). Share with students that there may be more than one way to interpret the government's response and that not all scenarios presented will affect every group. As a result, students should be able to defend their choice with well-reasoned arguments. You can allow students to come up with their answers individually or as a group. Instruct students not to look at how the other groups (or, if working independently, their group members) have answered. You can rotate the groups to allow them to answer from different perspectives.
8. Select a scenario and read it to the students. Allow one minute for students to discuss the scenario if working collectively and decide how the scenario will affect their group. Ask the students to hold the arrows up for increase, down for decrease or to the side if there is no change (or if the change is undetermined for their variable).
9. Facilitate class discussion after each scenario. Ask students to provide the direction of the change and the reasoning they used to determine the direction of the change.
10. To conclude, sum up the group discussion by reinforcing in general how changes in the economy and other events may affect the level of government revenue and spending, and in turn, the level of the federal deficit/surplus and national debt.

Sample Discussion Response:

- Scenario: Unemployment rises due to a financial crisis.
- Revenue ↓: Income and payroll taxes fall.
- Spending ↑: More people are eligible for unemployment insurance and social assistance programs.
- Deficit ↑: In a given year with all else constant, lower revenue and higher spending would tend to reduce any surplus or increase any deficit.
- Debt ↑: In a given year with all else constant, lower revenue and higher spending would tend to reduce any surplus or increase deficits which may increase the overall debt level.



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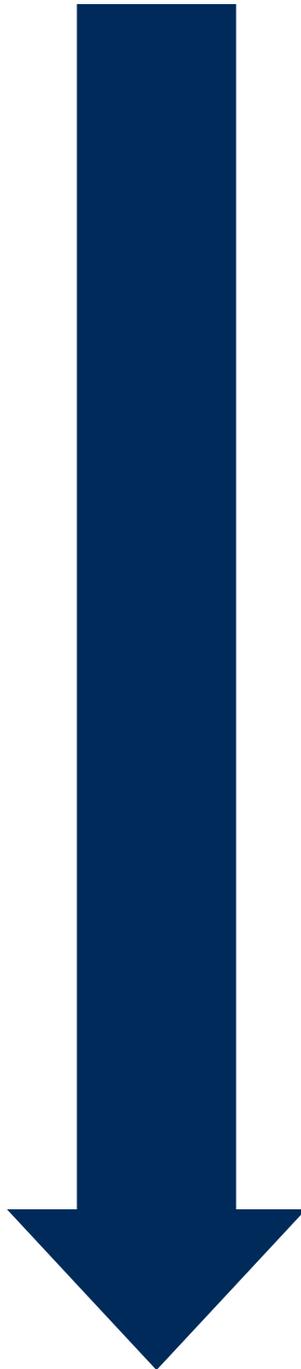
Teacher Resource: Economic Scenarios

Unemployment rises due to a financial crisis.	Unemployment falls due to an economic boom.
A hurricane hits the eastern United States.	Corporate earnings rise in most sectors.
Corporate earnings fall for most major companies.	On average, incomes have been rising.
On average, incomes have been falling.	The baby boomers are retiring earlier than planned.
Companies have expanded their production.	The number of people applying for disability benefits has risen.
The number of people eligible for Medicaid has fallen.	A war has broken out between two countries and the United States has decided to get involved.
Two countries have reached a peace agreement and the United States is able to withdraw its troops.	The terrorist threat level has been lowered.
Many bridges have been found to be unsafe.	There is a boom in the housing market.
Healthy diets are becoming the new rage and the obesity rates have fallen nationwide.	The average length of time people are unemployed keeps getting longer.
A new study promises higher student performance if class sizes are lowered. The government raises taxes to pay for more schools and teachers.	More students are receiving government loans to go to college than ever before with no change in taxes.
The number of scientists applying for government research grants has fallen.	Flooding hits the Midwest.
There is an international push for increased foreign aid from the United States. The United States government acquiesces.	New companies are being started throughout the country and business is booming.



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Handout: Arrow





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Visual: Government Spending and Revenue

FEDERAL GOVERNMENT REVENUE	FEDERAL GOVERNMENT SPENDING
<ul style="list-style-type: none">• Individual income taxes• Social insurance taxes such as Social Security and Medicare• Corporate income taxes• Estate and gift taxes	<ul style="list-style-type: none">• Social Security• Medicare• Medicaid• Defense• Unemployment compensation• Spending on health, education, and transportation
<ol style="list-style-type: none">1. How might changes in personal income and corporate earnings impact how much tax revenue the government receives?2. How does a change in tax revenue impact the budget surplus/deficit? The national debt?	<ol style="list-style-type: none">1. How do changes in demographics, the economy, war, and other emergencies affect spending?2. What types of changes would cause spending to fall? Rise?3. How does a change in spending impact the budget surplus/deficit? The national debt?