

Macroeconomics Activity: Government Spending, Subsidies, Taxes and Opportunity Costs

The following macroeconomics activity is taken from the Instructor's Manual to Accompany "Teaching Tools for Microeconomics from John Stossel -- College edition" by James Gwartney, John Morton, Mark Schug, and Joseph Calhoun. The accompanying Stossel DVDs may be purchased at: AbcNewstore.com

Common Sense Economics

Part III: Element 5 and on

Key Economic Words and Concepts: Opportunity Cost, Taxation, Government Spending

This is a brief simulation that illustrates that every choice for government spending has an opportunity cost. There is no free lunch in government spending--just as there is no free lunch in private spending. Every choice has an opportunity cost, and too often that opportunity cost is ignored.

1. Set up the situation.

The state government is considering a temporary half-cent increase in the sales tax to expand government programs. The tax is expected to raise \$500,000,000 per year, and the governor and state legislature are considering the following choices.

a. New stadium

Build a new stadium for the professional football team that has threatened to move to another state. The new stadium would be a state-of-the-art facility with comfortable seats, skyboxes, extensive restrooms, and numerous food areas. Backers claim the construction will create many high-quality jobs.

b. "Education for the Future"

This is a plan to improve the public schools and improve student performance in math, reading, and science. Under this plan teacher salaries would increase, schools would get new facilities, and accountability for student performance would increase. Backers believe that improving the skills of future members of the workforce will attract businesses that will create high-quality jobs.

c. "Transportation Express"

This is a plan to create highways throughout the state and public transportation in urban areas. Backers believe that the improved transportation system will stimulate business development and make the state a more pleasant place in which to live. They also believe the construction will create many new jobs.

d. No new taxes

Some state legislators believe that the taxpayers should keep the money they earned and the sales tax should not be raised. They argue that lower taxes

create incentives for people to work, spend, save, and invest. They argue, therefore, that more jobs will be created and living standards will be raised.

2. Time to choose

Write each alternative on a separate sheet of paper and spread the four sheets throughout the classroom. Have the students go to the sheet of paper with the program they support.

3. Discuss the decision.

Have the students discuss their choices and encourage students who made different choices to be critical. The key here is not that one choice is better than the others but each decision has benefits and opportunity costs.

Finally, ask what choices members of the state legislature might make and why. Which special interests would support each program?