

## Section 2: Guided Reading and Review

# Fiscal Policy Options



### A. As You Read

As you read Section 2, answer the following questions.

1. What failure of classical economics did the Great Depression highlight? \_\_\_\_\_  
\_\_\_\_\_
2. How did John Maynard Keynes explain the continuation of the Great Depression? \_\_\_\_\_  
\_\_\_\_\_
3. (a) According to Keynes, how could the Depression-era government make up for the drop in private spending? \_\_\_\_\_  
(b) What did Keynes say the result would be? \_\_\_\_\_
4. (a) What economic data did Keynes say the federal government should track? \_\_\_\_\_  
\_\_\_\_\_  
(b) For what purpose? \_\_\_\_\_  
\_\_\_\_\_
5. Why did Keynesian economics lose popularity in the 1960s and 1970s? \_\_\_\_\_  
\_\_\_\_\_
6. What is a stable economy? \_\_\_\_\_
7. When national income is low, how do taxes and government transfer payments help stabilize the economy? \_\_\_\_\_  
\_\_\_\_\_
8. According to supply-side economics and the Laffer curve, how do higher tax rates affect the economy? \_\_\_\_\_  
\_\_\_\_\_
9. What argument lies at the heart of supply-side economics? \_\_\_\_\_  
\_\_\_\_\_
10. How did President Kennedy propose to increase demand? \_\_\_\_\_

### B. Reviewing Key Terms

Use a key term to complete each sentence.

11. An economy sustains maximum output for a period of time when it operates at \_\_\_\_\_.
12. The idea that in a free market, people act in their own self-interest, causing prices to rise or fall so that supply and demand will always return to equilibrium is the thinking in \_\_\_\_\_.
13. Taxes and transfer payments act as \_\_\_\_\_.
14. The idea that every dollar change in fiscal policy creates a greater than one dollar change in the economy explains the \_\_\_\_\_.