

# GOVERNMENT AP

## Chapter 18: Economic Policy

### MERIDIAN NOTES

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### Vocabulary

1. Economic Depression	A period of high unemployment and business failures; a severe, long-lasting downturn in a business cycle.	13. Federal Reserve System	The system of banks that acts as the central bank of the United States and controls major monetary policies.
2. Inflation	An economic condition characterized by price increases linked to a decrease in the value of the currency.	14. Supply-side Economics	Economic policies aimed at increasing the supply of goods (as opposed to increasing demand), consisting mainly of tax cuts for possible investors and less regulation of business.
3. Business Cycles	Expansions and contractions of business activity, the first accompanied by inflation and the second by unemployment.	14. Fiscal Year (FY)	The twelve-month period from October 1 to September 30 used by the government for accounting purposes. A fiscal year budget is named for the year in which it ends.
4. Aggregate demand	The money available to be spent for goods and services by consumers, businesses, and government.	15. Budget Authority	The amounts that government agencies are authorized to spend for their programs.
5. Productive Capacity	The total value of goods and services that can be produced when the economy works at full capacity.	16. Budget Outlays	The amounts that government agencies are expected to spend in a fiscal year.
6. Gross Domestic Product (GDP)	The total value of the goods and services produced by a country during a year.	17. Receipts	For a government, the amount expected or obtained in taxes or revenue.
7. Keynesian Theory	An economic theory stating that the government can stabilize the economy-- that is, can smooth business cycles-- by controlling the level of aggregate demand, and that the level of aggregate demand can be controlled by means of fiscal and monetary policies.	18. National Debt	The accumulated sum of past government borrowing that remains to be paid.
8. Fiscal Policies	Economic policies that involve government spending and taxing.	19. Office of Management and Budget (OMB)	The budgeting arm of the Executive Office; prepares the president's budget.
9. Monetary Policies	Economic policies that involve control of, and changes in, the supply of money.	20. Tax Committees	The two committees of Congress responsible for raising revenue with which to run the government.
10. Deficit Financing	The Keynesian technique of spending beyond government income to combat an economic slump. Its purpose is to inject extra money into the economy to stimulate aggregate demand.	21. Authorization Committees	Committees of Congress that can authorize spending in their particular areas of responsibility.
11. Council of Economic Advisers (CEA)	A group that works within the executive branch to provide advice on maintaining a stable economy.	22. Appropriations Committees	Committees of Congress that decide which of the programs passed by the authorization committees will actually be funded.
12. Monetarists	Those who argue that government can effectively control the performance of an economy only by controlling the supply of money.	23. Budget Committees	One committee in each house of Congress that supervises a comprehensive budget review of process.
		24. Congressional Budget Office (CBO)	The budgeting arm of Congress, which prepares alternative budgets to those prepared by the president's OMB.

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25. Gramm-Rudman	Popular name for an act passed by Congress in 1985 that, in its original form, sought to lower the national deficit to specified level each year, culminating in balanced budget in FY 1991. New reforms and deficit targets were agreed on in 1990.
26. Budget Enforcement Act (BEA)	A 1990 law that distinguished between mandatory and discretionary spending.
27. Mandatory Spending	In the Budget Enforcement Act of 1990, expenditures required by previous commitments.
28. Discretionary Spending	In the Budget Enforcement Act of 1990, authorized expenditures from annual appropriations.
29. Entitlements	Benefits to which every eligible person has a legal right and that the government cannot deny.
30. Pay-as-you Go	In the Budget Enforcement Act of 1990, the requirement that any tax cut or expansion of an entitlement program must be offset by a tax increase or other savings.

31. Balanced Budget Act (BBA)	A 1997 law that promised to balance the budget by 2002.
32. Progressive Taxation	A system of taxation whereby the rich pay proportionately higher taxes than the poor; used by governments to redistribute wealth and thus promote equality.
33. Incremental Budgeting	A method making that involves new funds (an increment) onto the amount previously budgeted (in last year's budget)
34. Uncontrollable Outlay	A payment that government must make by law.
35. Transfer Payment	A payment by the government to an individual, mainly through social security or unemployment insurance.

