

Standard 16 : Role of Government

Students will understand that:

There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income.

Students will be able to use this knowledge to:

Identify and evaluate the benefits and costs of alternative public policies, and assess who enjoys the benefits and who bears the costs.

Why does government pay private construction firms to build roads and highways? Why do the firms that build the roads not own them themselves and charge tolls to users? All kinds of goods and services are produced and distributed through private markets, so why not roads and highways, too? In flipping through the pages of the telephone directory, we observe a vast array of businesses and government agencies. Why do markets work well to supply much of what we want, while failing to produce other things we want?

Citizens should understand the limitations and shortcomings of markets and how some government policies attempt to compensate for market failures. Learning the economic as well as the political and social reasons for public sector services helps citizens make better choices about the appropriate size and scope of markets and government. It is also important that students be able to evaluate redistributive effects of government programs.

Benchmarks

Grade 4

At the completion of Grade 4, students will know that:	At the completion of Grade 4, students will use this knowledge to:
Governments provide certain kinds of goods and services in a market economy.	Brainstorm a list of goods and services not privately produced and explain how these goods and services are paid for.
Governments pay for the goods and services they use or provide by taxing or borrowing from people.	Apply knowledge of the role of government in the economy in responding to the following question: Your community wants a new bridge. Who will pay for this bridge and how will they get the money? Why is this the best way to pay for bridges?

Grade 8

At the completion of Grade 8, students	At the completion of Grade 8, students
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will know the Grade 4 benchmarks for this standard, and also that:	will use this knowledge to:
Public goods and services provide benefits to more than one person at a time, and their use can not be restricted to only those people who have paid to use them.	Explain why tax dollars are used to produce national defense, elementary school education, and roads. Explain why, without government, these services would not be provided in the private sector.
If a good or service cannot be withheld from those who do not pay for it, providers expect to be unable to sell it and, therefore, will not produce it. In market economies, governments provide some of these goods and services.	Answer the following questions: If the national, state, and local governments had no power to tax, what goods and services would we have to do without?
In the United States, the federal government enforces antitrust laws and regulations to try to maintain effective levels of competition in as many markets as possible; frequently, however, laws and regulations also have unintended effects for example reducing competition.	Explain why the Federal Trade Commission might prevent the purchase of one large corporation by its closest competitor and what the effects might be on consumers, producers, and workers if the sale were allowed.
Most federal government tax revenue comes from personal income and payroll taxes. Payments to social security recipients, the costs of national defense, medical expenditures, and interest payments on the national debt constitute the bulk of federal government spending.	Use data from the U.S. federal budget to construct two pie charts one representing major categories of federal revenue and one representing major categories of federal expenditures.
Most state and local government revenues come from sales taxes, grants from the federal government, personal income taxes, and property taxes. The bulk of state and local government revenue is spent is for education, public welfare, road construction and repair, and public safety.	Compare the various sources of state and local revenues and various categories of state and local expenditures in their state and community with those for the U.S. federal government.

Grade 12

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also that:	At the completion of Grade 12, students will use this knowledge to:
Markets do not allocate resources	Identify at least three economic roles of our

effectively if: (1) property rights are not clearly defined or enforced, (2) externalities (spillover effects) affecting large numbers of people are associated with the production or consumption of a product; or (3) markets are not competitive.	government and cite a specific example of each.
An important role for government in the economy is to define, establish, and enforce property rights. A property right to a good or service includes the right to exclude others from using the good or service and the right to transfer the ownership or use of the resource to others.	Predict what would happen to some land they own if they had no right to restrict its use by other or if they found crude oil on this land but had no right to sell it.
Property rights provide incentives for the owners of resources to weigh the value of present uses against the value of conserving the resources for future use.	Analyze the following scenario and predict probable economic and social consequences: To save money, Congress passes, and the President signs into law, a bill that makes it illegal for any government to settle disputes over property rights. From now on, property-related matters will be settled privately.
Externalities exist when some of the costs and benefits associated with production and consumption fall on someone other than the producers or consumers of the product.	Explain why there is a role for government in dealing with pollution, vaccinations and medical research; recommend what this role would be.
When a price fails to reflect all the benefits of a product, too little of the product is produced and consumed. When a price fails to reflect all the costs of a product, too much of it is produced and consumed. Government can use subsidies to help correct for insufficient output; it can use taxes to help correct for excessive output; or it can regulate output directly to correct for over- or under-production or consumption of a product.	Explain why state and local governments use public money for elementary education and why tobacco and gasoline are heavily taxed.
When one producer can supply total output in a market at a cost that is lower than when two or more producers divide production, competition may be impossible. In the absence of competition, government regulations may then be used to try to control price, output, and quality.	Explain why there is usually only one local water supplier.

<p>Governments often redistribute income directly when individuals or interest groups are not satisfied with the income distribution resulting from markets; governments also redistribute income indirectly as side-effects of other government actions that affect prices or output levels for various goods and services.</p>	<p>Describe three government assistance programs, explain why government provides them, and determine which groups in the economy benefit from them and which groups bear the costs to fund them.</p>
<p>Governments provide an alternative method to markets for supplying goods and services when it appears that the benefits to society of doing so outweigh the costs to society. Not all individuals will bear the same costs or share the same benefits of those policies.</p>	<p>Discuss the costs and benefits of public education and identify who gains the most and who bears most of these costs.</p>
<p>A government policy to correct a market imperfection is not justified economically if the cost of implementing it exceeds its expected net benefits.</p>	<p>Analyze the costs and benefits of a \$500 per person state government job-training program to help adults without jobs. Make a recommendation on whether or not implementing this program is a good economic decision.</p>