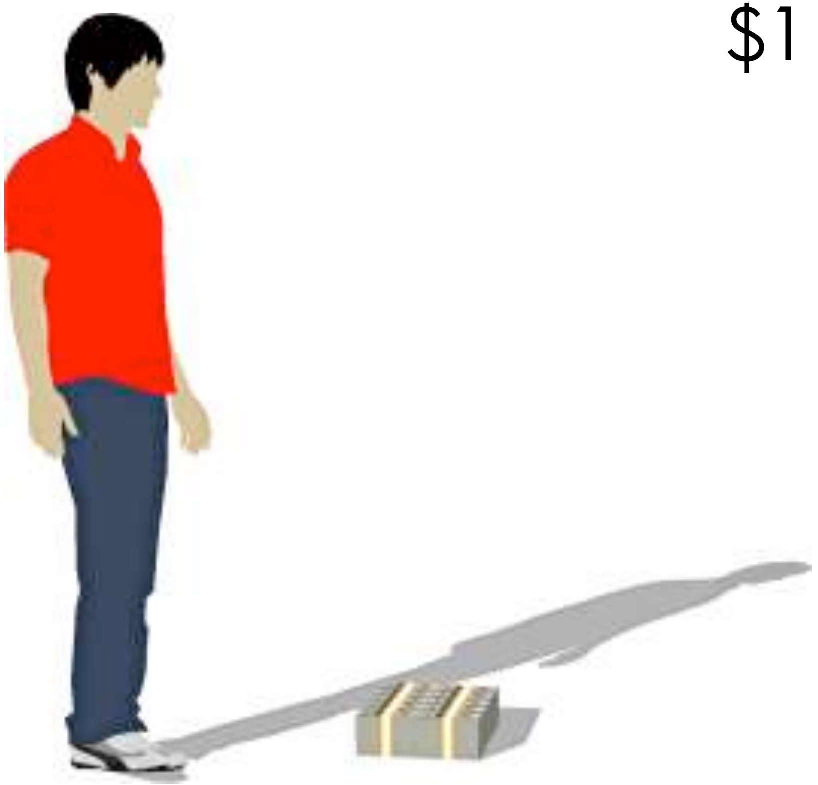
How big is a trillion?

How big is a trillion?

How big is a trillion?

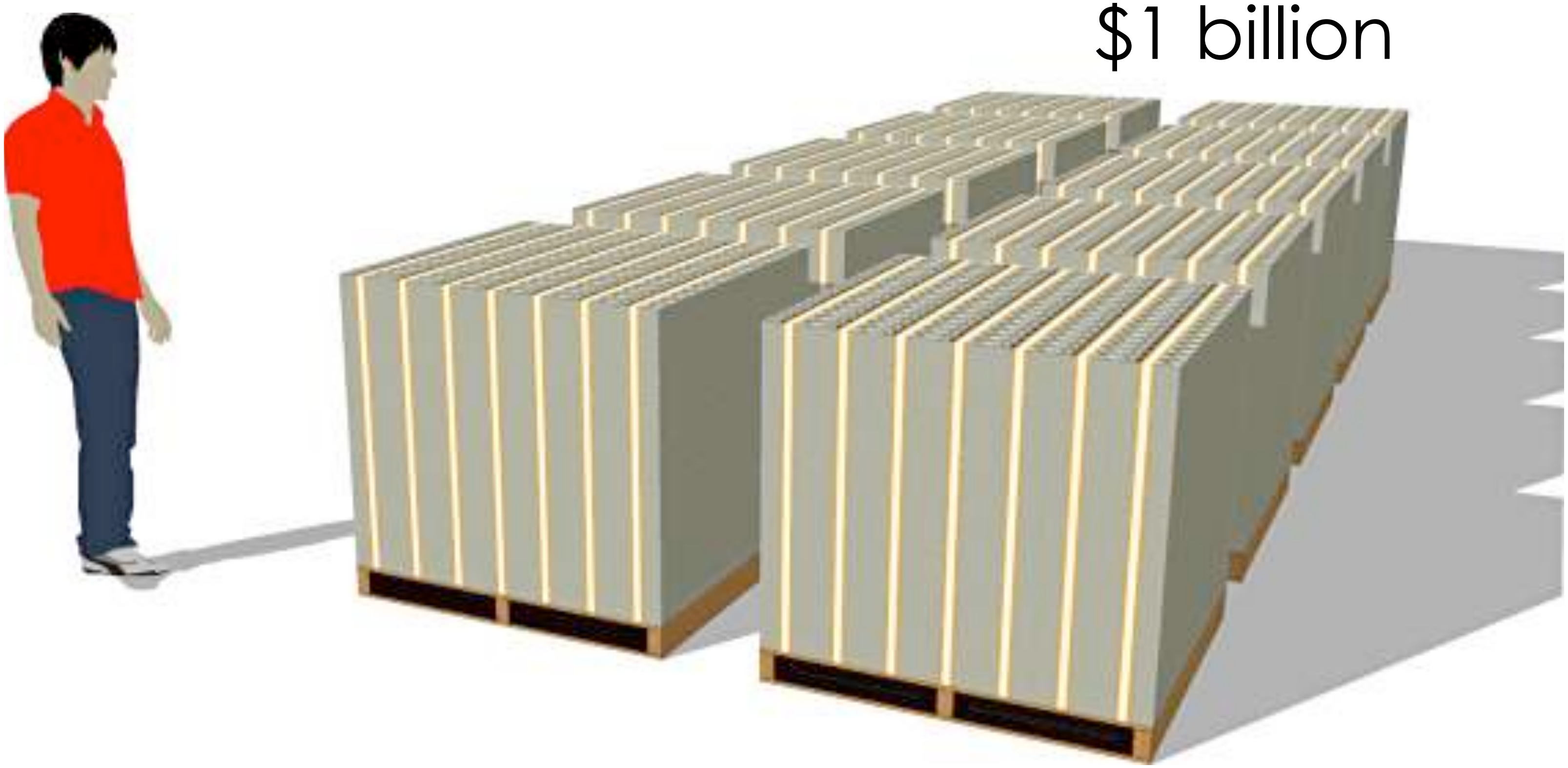
$1 million



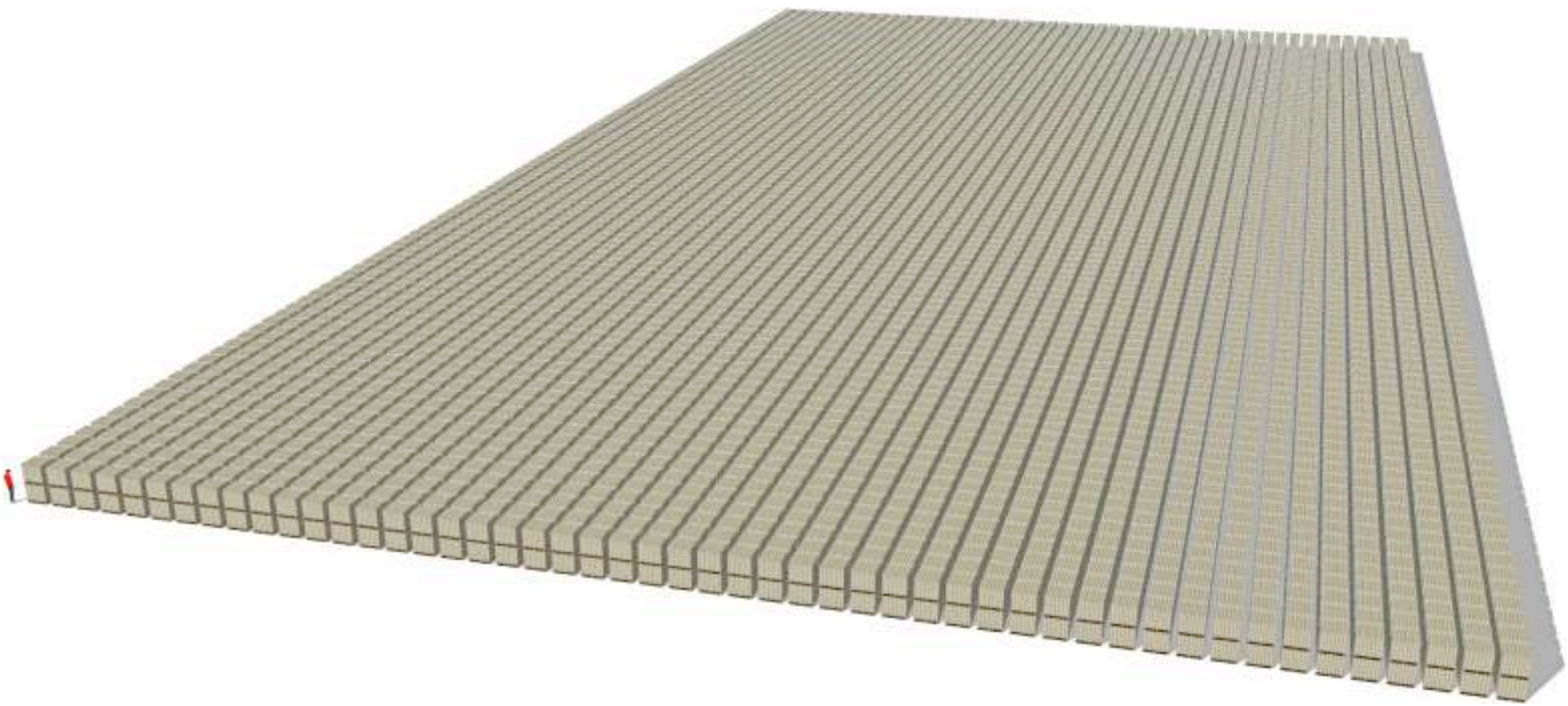
How big is a trillion?

$100 million

How big is a trillion?



How big is a trillion?



Supply-side Policies

Supply-side Policies

What are supply-side policies?

- Policies that focus on production.
- The goal of these policies is to move the LRAS or Keynesian (AS) curves to the right to achieve long term growth.
- They NEVER use them to move supply to the left.
- There are two kinds of supply-side policies
  1. Interventionist
  2. Market-based

Interventionist Supply-side Policies

- Supporters of these policies believe that the free market economy needs government help
- These policies involve government invention in the economy

Interventionist Supply-side Policies

1. Government Investment in human capital
   a. Training and education
      - Better education means more productivity and lower natural unemployment
      - Examples: Retraining programs for unemployed, scholarships, loans….

Interventionist Supply-side Policies

1. Government Investment in human capital

   b. Health Care services

      - Better health means more productivity
      - Government built clinics, insurance, advertising…

      Increases AD in the short run and LRAS/Keynesian AS in the long run

High Cost Health Care Patient

"What I mean is that, on the surface, we are an unfair drain on the system, getting a lot of expensive and inconclusive tests, taking a lot of expensive specialists' time. But in a larger sense, if you look at me not as an economic variable in the health care system, but rather as an economic variable in the greater economy of domestic production, by helping restore me to health, you're getting back many times the health care investment by restoring me to full economic productivity."

Interventionist Supply-side Policies

2. Investment in new technology
   a. Government investment in research and development (R&D)
      - Better technology means more productivity
      - Tax incentives, patents…

Increases AD in the short run and LRAS/ Keynesian AS in the long run

Interventionist Supply-side Policies

3. Investment in infrastructure

Infrastructure

- **Infrastructure** – power lines, pipes, roads, dams, canals, ports, airports, etc.
- Infrastructure is a type of physical capital

Interventionist Supply-side Policies

3. Investment in infrastructure
   - Better infrastructure means more productivity

   Increases AD in the short run and LRAS/ Keynesian AS in the long run

Interventionist Supply-side Policies

4. Industrial Policies

   a. Support for small and medium-sized enterprises (businesses)
      - Grants, low-interest loans, tax exemptions

   b. Support for 'infant industries'
      - Grants, subsidies, tax exemptions, trade protection

Increases AD in the short run and LRAS/Keynesian AS in the long run

Market-Based Policies


CUT TAXES
CUT SPENDING
CUT GOVERNMENT
AX the
Presidential Pledge
The American People

Market-Based Policies

Encouraging Competition

- Privatization
- Deregulation (less rules)
- Contracting out to private sector
- Free Trade

Market-Based Policies

Labor Market Reforms

- Removing minimum wage
- Weakening unions
- Reducing unemployment benefits
- Reducing job security (easier to fire)

Market-Based Policies

Incentive-related Policies

- Lowering personal income taxes
- Lower capital gains taxes (taxes on stocks and bonds)
- Lower business taxes

Supply-side Policies

Interventionist

- Human-Capital (Health Education)
- Technology
- Infrastructure
- Industrial Policies

Market-based

- Encouraging Competition
- Labor market reform
- Incentive-related

Evaluating Supply-Side Policies

- Time Lags

Evaluating Supply-Side Policies

- Economic Growth
  - Increases in potential output

Evaluating Supply-Side Policies

- Ability to create employment

Evaluating Supply-Side Policies

- Ability to reduce inflationary pressure

Evaluating Supply-Side Policies

- Increased Government Deficit

Evaluating Supply-Side Policies

- Effects on Equity

Evaluating Supply-Side Policies

- Effects on the environment