

Guided Reading Activity

Fiscal Policy

Lesson 2 *Supply-Side Policies*

Review Questions

Directions: Read each main idea and complete the statements or answer the questions below. Refer to your textbook as you write the answers.

A. Goals of Supply-Side Policies

Main Idea: Supply-side policies are an alternative to demand-side policies. They target producers, who are also suppliers, to stimulate their output, and therefore provide jobs.

1. _____-side policies target producers to stimulate their output and provide jobs. They became popular under _____.
2. Supply-siders argue that the economic role of the federal government should be _____ because it _____ production and _____ growth. They believe that _____ tax rates would allow individuals to keep more money, encourage them to work harder, and in the long run, increase demand.
3. The _____ curve illustrates the theoretical relationship between lower income tax rates and higher tax revenues. However, in practice, lower tax rates did not lead to higher tax revenues.
4. Supply-siders also seek to _____ industries by relaxing or removing government regulations.

B. Impact and Limitations of Supply-Side Policies

Main Idea: Supply-siders believe that their policies have never been fully tested because deregulation was offset by increased federal spending and a smaller government has never materialized. In addition, lowered tax rates have not increased tax revenue.

1. Supply-siders predicted that _____ tax rates and _____ government regulation would create strong economic growth; however, the economic growth during Reagan's first two terms could have been helped by extensive military spending.

Guided Reading Activity *cont.*

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- 2. The idea that lower tax rates would lead to _____ tax revenue has been proven _____.

- 3. Almost everyone, including demand-siders, favors policies that make production more _____, but economists believe that supply-side policies during the Reagan and Bush presidencies made the economy _____ stable.

- 4. Both demand-side and supply-side policies want to _____ production and _____ unemployment without causing _____.

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the questions below.

Which theory do you agree with more? Demand-side or supply-side economics? Explain why.
