

**DISCUSSION QUESTION**

Name:

Instructor:

Course:

The federal government can deal with budget deficits by either financing it (through borrowing) or by selling assets. How does the federal government borrow money?

## PEER GROUP PROBLEM SOLVING

Name:

Instructor:

Course:

What is meant by the term “annual balanced budget?” Name and describe two alternatives to an annual balanced budget.

**IN-CLASS EXPERIMENT / ACTIVE EXERCISE**

What is the difference between a budget deficit and national debt? Go to [www.usdebtclock.org](http://www.usdebtclock.org) and find out what the U.S. National Debt is as well as the debt to GDP ratio. In addition, find your home state and its debt and debt to GDP ratio. Finally, choose a foreign country and find its External Debt to GDP ratio.

## SOLUTIONS AND INSTRUCTOR NOTES

### Discussion Question

The federal government can deal with budget deficits by either financing it (through borrowing) or by selling assets. How does the federal government borrow money?

*The federal government borrows money by issuing debt. The U.S. Treasury Department issues debt in the form of Treasury bills, notes, bonds, and Treasury inflation-protected securities. Government agencies, businesses, individuals, and state and local governments buy them.*

### Peer Group Problem Solving

What is meant by the term “annual balanced budget?” Name and describe two alternatives to an annual balanced budget.

*A balanced budget means projected revenues must equal projected expenditures. An annually balanced budget is where federal expenditures and taxes would be equal each year*

*Two alternatives to an annual balanced budget:*

- 1. Cyclically balanced budget: Balancing the budget over the course of the business cycle by restricting spending or raising taxes when the economy is booming and using these surpluses to offset the deficits that occur during recessions.*
- 2. Functional finance: Ignores the impact of the budget on the business cycle and focuses on fostering economic growth and stable prices while keeping the economy as close as possible to full employment.*

### In-Class Experiment / Active Exercise

What is the difference between a budget deficit and national debt? Go to [www.usdebtclock.org](http://www.usdebtclock.org) and find out what the U.S. National Debt is as well as the debt to GDP ratio. In addition, find your home state and its debt and debt to GDP ratio. Finally, choose a foreign country and find its External Debt to GDP ratio.

*A budget deficit is the amount by which annual government spending exceeds tax revenues. National debt is the total accumulation of past deficits and surpluses. Answers regarding current U.S. National Debt, state debt, and foreign debt will vary.*

*For more in-class experiment and active learning ideas, visit [www.econedactive.com](http://www.econedactive.com)*