

Chapter 32 Project

The Impacts of Government Borrowing

Purpose

In this chapter, you have learned how government borrowing affects private investment. You have learned about the trade balance and the concept of the twin deficits of a trade and budget deficit. Furthermore, you have studied the concepts of Ricardian equivalence and crowding out as they pertain to government spending.

The purpose of this project is to explore Ricardian equivalence and crowding out.

Directions

This project has two parts. In the first, you will explore the concept of Ricardian equivalence and how this model holds up in real-world applications.

In the second, you will explain the macroeconomic concept of crowding out, how well the model of crowding out has held up in the real world, and how government grants affect the concept of crowding out.

Part 1 - Exploring the Concept of Ricardian Equivalence

Review Lesson 32.3 and then check out the following articles:

(hawkes.biz/Ric1)

(hawkes.biz/Ric2)

Explain the theory of Ricardian equivalence.

Using details from the Economics Help article (hawkes.biz/Ric1), explain the theoretical problems that exist with the concept of Ricardian equivalence.

Using the Vox article (hawkes.biz/Ric2), explain how well Ricardian equivalence has held up in modeling real-world behavior (with a focus on the European Union).

Part 2 - Explaining the Macroeconomic Concept of Crowding Out

Review Lesson 32.4 and then check out the following:

(hawkes.biz/Crowding1)

(hawkes.biz/Crowding2)

(hawkes.biz/Crowding3)

(hawkes.biz/Crowding4)

Define and explain the macroeconomic concept of crowding out in its standard context (of government spending crowding out private spending).

Using the article from the U.S. Tax Foundation (hawkes.biz/Crowding1), explain how well the concept of crowding out has held up in the real world in the United States.

Using the National Bureau of Economics (NBER) articles (hawkes.biz/Crowding2, hawkes.biz/Crowding3), explain how government grants may crowd out fundraising by charities and private donations in the U.S. and UK.

Define the concept of crowding in as it applies to charitable donations by organizations and individuals.

Explain the empirical evidence of crowding in for the U.S. and UK as provided in the NBER and Georgia State University articles (hawkes.biz/Crowding4).

Checklist

Part 1

- ☐ Review Lesson 32.3.
- ☐ Review the provided articles.
- ☐ Use the provided resources to answer all questions.

Part 2

- ☐ Review Lesson 32.4.
- ☐ Review the provided articles.
- ☐ Use the provided resources to answer all questions.