

ECO 209 Macroeconomic Theory and Policy

Case Study No. 1

Case Study No. 1 on the **Government Budget Surplus** will be discussed in class on Tuesday, May 30. The required short-readings have been posted on the course website. Read these articles and come to class ready for the discussion. The following questions will help you in your preparation:

- 1) Why is government borrowing perceived by some interest groups as always being “bad”?
- 2) Why does Don Drummond (formerly of the TD Bank) believe that the proposal for a balanced-budget law is a “horribly bad policy”?
- 3) What should the government do in order to have a balanced-budget during a period of recession? What would be the impact of having a balanced-budget during a year of recession?
- 4) What should the government do in order to have a balanced-budget during a period of economic boom? What would be the impact of having a balanced-budget during a year of economic boom?
- 5) When is a government budget deficit definitely “bad”? When is a government budget surplus definitely “bad”?
- 6) If a balanced-budget law doesn’t make much economic sense, why is such a proposal resurfacing time and again?
- 7) What would you consider to be a sensible policy regarding the government budget? Should the government ever aim at a balanced-budget?
- 8) The federal government ran a surplus of \$13.8 billion during the fiscal year 2006-07 and of \$9.6 billion in 2007-08. What do you think the government should have done with those surpluses?
- 9) What theories—according to Krugman—have conservative politicians used to justify cutting taxes? What is “supply economics”? What is its main aim? How does Krugman call the other “theory” behind the tax-cut proposal? What is the ultimate goal of such a proposal? Who would benefit from it?
- 10) Was the deficit of the Spanish government the cause of Spain’s economic crisis? Would a reduction of this deficit have helped to solve the crisis in Spain?