

Deficit & Debt - Lesson Plan

Overview:

The U.S. government often spends more money than it takes in.

Objectives:

Students will be able to:

- Understand why the U.S. usually has a budget deficit
- Define the national debt

Background and Information:

- Deficit is the amount by which a sum of money falls short of the required amount
- Debt is money owed to someone else

Time:

45 Minutes

Materials:

- iPad
- Gods of Money** app
- Deficit & Debt Worksheets

Educational Goals:

- To develop an increased understanding of how the U.S. economy works.
- To understand how U.S. budget deficits contribute to the federal debt.

Activity

I. **LECTURE** *10 minutes*

- A. The U.S. government raises money every year primarily by collecting taxes.
- B. The government spends money every year according to its budget.
- C. However, the government usually spends more than it receives.
- D. The resulting shortfall is called the “budget deficit.”
- E. On rare occasions the U.S. government receives more money than it spends.
This results in a “budget surplus.”
- F. The government makes up for the shortfall by borrowing money.
- G. The government typically borrows money by issuing bonds.
 1. Bonds are financial instruments people buy to receive interest payments.
 2. Bonds usually pay low interest rates.
 3. U.S. bonds are considered very safe; that is, bond investors will very likely get all their investment back in addition to interest payments.
- H. Who buys U.S. bonds?
 1. Individual investors

2. Corporations
3. Foreign countries
- I. The total amount of money that the U.S. government owes to creditors is called the “Federal Debt.”
- J. The federal debt is sometimes referred to as the “national debt.”
- K. The larger the federal debt, the more U.S. government money must be spent to pay interest.
- L. Should the federal debt be paid off?
 1. Some experts say that the federal debt is too large and should be paid down.
 2. Other experts say that the federal debt is necessary for economic growth.
- M. Some politicians advocate a “balanced budget” to stop increasing the federal debt.
 1. A “balanced budget amendment” would become a permanent change to the U.S. constitution.

II. DEMONSTRATION *15 minutes*

- A. On the iPad, open the **Gods of Money** app.
- B. Tap ‘Start’ Gods of Money.
- C. Tap ‘Watch’ historical data.
- D. Set the Start Date to **Jan 2015**.
- E. Tap ‘Start >’.
- F. When the Budget window appears, pause it by tapping the countdown timer(in the upper right).
- G. In the bottom right area of the Budget window, note:
 1. Total budget expenditures: \$3,689 billion (“3 trillion 689 billion”)
 2. Projected Revenue: \$3,059 billion (“3 trillion 59 billion”), or 82.94% of the budget
 3. Projected Deficit: \$629 billion, or 17.06% of the budget
- H. For the 2015 budget, the U.S. government spent \$629 billion more than it took in.
- I. Note the Net Interest on the bottom line of the budget.
 1. The Net Interest is the payment the U.S. must make to its creditors.
 2. This is similar in concept to making the minimum credit card payment.
 3. The larger the budget deficit, the larger the federal debt grows.
 4. The larger the federal debt, the larger the interest payment.
 5. The larger the interest payment, the larger the budget.
 6. The larger the budget, without additional revenue, the larger the deficit
 7. The larger the deficit, and the larger the federal debt grows. (See step 3 above.)
 8. The mandatory minimum for interest for 2015 was \$229 billion, or 6.21% of the total budget.
- J. Tap the checkmark to close the Budget window.
- K. Tap the date (in the upper right) to pause the app.
- L. The large red box behind the government box represents the federal debt.
- M. In 2015 the federal debt was \$18.2 trillion.
- N. In 2015 the federal debt was larger than the gross domestic product, which was 17.6 trillion.
- O. Note the values in the Gods of Money dashboard:

1. Revenue
2. Expenditures
3. Budget Deficit
4. Federal Debt

III. IN-CLASS ASSIGNMENT *20 minutes*

- A. Pass out the **Deficit & Debt Worksheets**, one per student.
- B. Have students follow the instructions on the worksheet:
 1. Start and run **Gods of Money** to find and record the Revenue, Expenditures, Budget Deficit and Federal Debt dollar values for 1970 through 2010 at 10-year intervals.
 - a) Be sure to use consistent dollar units, e.g. billions of dollars.
 - (1) If a value is in trillions, multiply by 1000 to get billions.
 - (2) If a value is in millions, divide by 1000 to get billions.
 2. Create 2 line charts for 1970 - 2010 showing:
 - a) Revenue & Expenditures
 - b) Budget Deficit & Federal Debt
 3. Use the values to answer the worksheet questions.

IV. HOMEWORK ASSIGNMENT *15 minutes*

- A. Assign students to complete the homework assignment on the worksheet.