

### General Instructions:

- Have the students read the book chapter before meeting to discuss its principles.
- There is no handout for group members. Use the group study questions at the end of each chapter in the book as the basis for the discussion.
- The section below provides the location of answers (page and paragraph in the book), the answers themselves (in brief), and the goal of each question.

### Chapter 8 Group Study Questions Discussion Key

1. What is a “stimulus plan”?
  - a. Answer location: Page 82, paragraph 3.
  - b. Answer in brief: A stimulus plan is an effort by the government to take a specific set of actions to help pull the economy out of a recession or depression.
  - c. Goal of the question: To help the student understand what stimulus plans are.
2. The chapter discusses six elements that can be used in stimulus plans. Which did you find most interesting? Why?
  - a. Answer location: Page 83, paragraph 1 through page 86, paragraph 1.
  - b. Answer in brief: The six elements are 1) government spending, 2) cash payments to individuals or state governments, 3) tax cuts, 4) cash payments or loans to businesses, 5) money supply adjustments, and 6) regulation adjustments.
  - c. Goal of the question: To help the student understand the broad instruments used in stimulus plans.
3. What is the “spending multiplier”? Why is it so important to the idea of stimulus plans?
  - a. Answer location: Page 83, paragraph 3 through page 84, paragraph 2.
  - b. Answer in brief: The amount of government spending is compounded in the economy by the purchases of individuals, businesses, and organizations receiving that money. It is important to stimulus plans because the higher the multiplier, the more successful the stimulus plan can be.
  - c. Goal of the question: To help the student understand why the government spends money in a time of economic downturn.
4. The chapter outlines three ways the Fed makes more money available for loans. Explain any one of them.

- a. Answer location: Page 85, paragraphs 2-6.
  - b. Answer in brief: The Fed makes more money available for loans by 1) buying its own bonds back from banks, 2) reducing the federal funds rate, and 3) reducing the amount of reserves banks must hold.
  - c. Goal of the question: To introduce the student to how the Fed acts to improve the economy.
5. Were you surprised to see how often stimulus plans have been used in America since the Great Depression? Why or why not?
  - a. Answer location: Page 86, paragraph 2 through page 87, paragraph 2.
  - b. Answer in brief: These paragraphs overview the use of stimulus plans in American history. There is no right or wrong answer here.
  - c. Goal of the question: To familiarize the student with the history of stimulus plans.
6. What did the Mercatus report conclude about whether or not stimulus plans actually worked? What were the four reasons it gave for this result?
  - a. Answer location: Page 87, paragraph 3 through page 89, paragraph 1.
  - b. Answer in brief: The Mercatus report concluded that stimulus plans have little to no effect on the economy. The four reasons given were the recognition problem, the timing problem, the coordination problem, and the multiplier problem.
  - c. Goal of the question: To help the student understand the ineffectiveness of stimulus plans and the reasons for that ineffectiveness.
7. The Mercatus report discussed research by Valerie Ramey on the spending multipliers for stimulus programs. What range of multipliers did she find for stimulus plans in general? (It starts with -0.3.) What does this tell us about the effectiveness of stimulus plans?
  - a. Answer location: Page 89, paragraph 1.
  - b. Answer in brief: -0.3 to 3.6. This means some stimulus spending could be very productive, creating a multiplier of as high as 3.6, while others could make no difference at all, dropping as low as -0.3.
  - c. Goal of the question: To help the student see the wide range of impact that stimulus spending can have.
8. Give the dollar amount and percentage increase in the U.S. national debt since 2001. Are you surprised by this increase?
  - a. Answer location: Page 89, paragraph 3.
  - b. Answer in brief: The national debt has grown by \$21 trillion in that time, a 450% increase.
  - c. Goal of the question: To show the student the drastic amount government debt has grown in the last 20 years.
9. Why does God send nations through difficult economic times? What is he trying to do

through these situations? Is this good or bad for us?

- a. Answer location: Page 91, paragraphs 1-3.
  - b. Answer in brief: God sends nations through difficult times to a) show his love for them, b) teach them his ways, and c) to bring about good in their lives.
  - c. Goal of the question: To show the student the good that can come from a period of national trial.
10. What does the reliance on government support in time of need do to our own individual efforts to take care of ourselves in difficult times? Is this a good or bad thing? Why?
- a. Answer location: Page 92, paragraph 2.
  - b. Answer in brief: Our reliance on government support in time of need has caused us to forgo the responsibility to take care of ourselves during hard times.
  - c. Goal of the question: To get the student to think about how we are personally responsible to prepare for difficult times, and that counting on the government to provide for us during these times is foolish and dangerous.