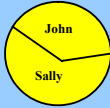


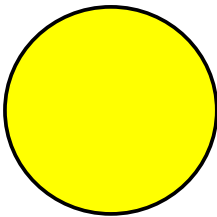
Government and Transfer Payments



What Does the Government Do?

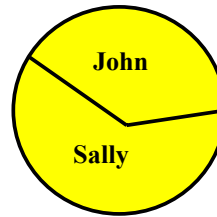
- Consumes Resources
- Transfers Income
- Collects Taxes

We all own a Piece of the Pie



In fact the pie –or at least a piece of the pie – belongs to each of us.

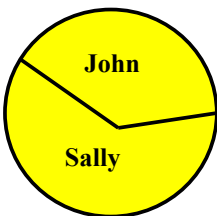
The Basic Accounting Identity



In fact the pie –or at least a piece of the

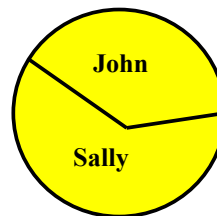
GDP = NI
(well almost)

John and Sally



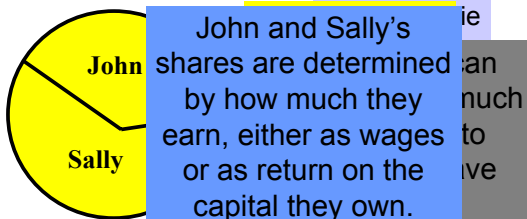
Part of the national income belongs to John, and part to Sally (well almost)

Decisions, Decisions



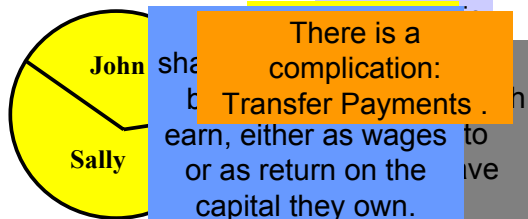
Part of the pie John and Sally can each decide how much of their income to consume and save (i.e., invest)

What Determines the Slices



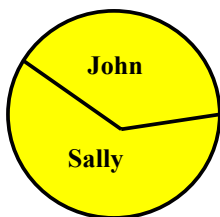
John and Sally's shares are determined by how much they earn, either as wages or as return on the capital they own.

A Complication



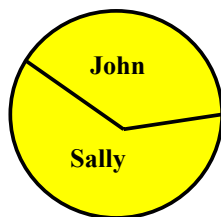
There is a complication: **Transfer Payments**. John and Sally's shares are determined by how much they earn, either as wages or as return on the capital they own.

Transfer Payments



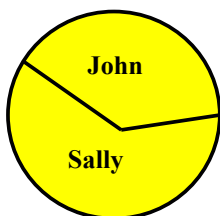
In a transfer payment, the government takes money from John and Sally via taxes and then gives it right back.

Redistribution



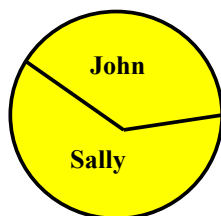
In some cases, the government redistributes money by taking from John and giving it to Sally and then gives it right back.

From One Hand to Another



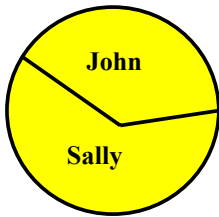
In some cases, the government takes money from John and gives it to Sally. In other cases, the government simply gives the money back to the person and then gives it right back.

Transfer Payment Basics



The programs do not change the amount of resources available for the private sector, but change who gets the resources.

Transfer Payment Basics



It does not do this by saying “John hand \$X over to Sally (or to yourself”, but by setting up *transfer programs* and taxing to pay for these programs.

gets the resources.

Examples

- Social Security
- Food Stamps
- Rent Subsidies
- Education Subsidies

Examples

- Social Security
- Food Stamps
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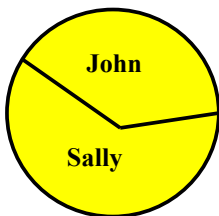
In some cases, these programs distribute from the high income to low income households.

Examples

- Social Security
- Food Stamps
- Rent Subsidies
- Education Subsidies

In other cases, the money comes right back. the high income to low income households.

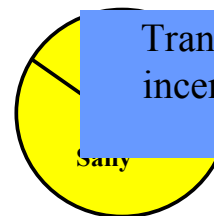
Winners and Losers



There may be winners and losers over to Sally (or to yourself”, but by setting up *transfer programs* and taxing to pay for these programs.

gets the resources.

Incentives



Transfer programs have incentive effects. Taxes matter.

and taxing to pay for these programs.

gets the resources.

Incentives

Transfer programs have

This is a major issue which we will discuss later.

Sany

and taxing to pay for these programs.

gets the resources.

End

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