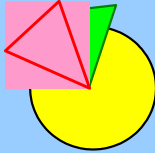


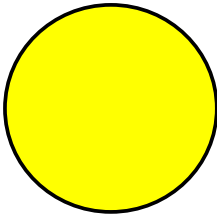
Government as Consumer



What Does the Government Do?

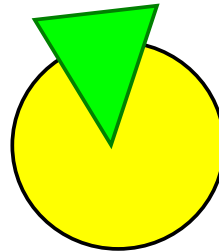
- Consumes Resources
- Transfers Income
- Collects Taxes

The National Pie



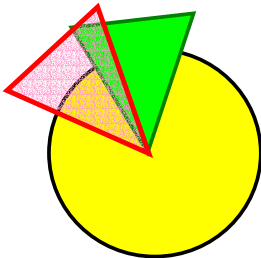
GDP is like a national pie; a slice for investment and a slice for consumption.

The National Pie



GDP is like a national pie; a slice for investment and a slice for consumption.

The Government Takes A Slice



GDP is like a
When the government consumes resources, the amount available for C and I decreases.

How is G used?

- Down the Sinkhole.

The Sinkhole Theory

- Down the Sinkhole.
 - Trucks pull up to factories, load up and head to giant sinkholes where they dump the goods.

The Sinkhole Theory

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 - Some argue that the government essentially wastes its resources, as if it were pouring them down a giant sinkhole.

The Sinkhole Theory

- Down the Sinkhole.
 - Trucks pull up to factories, load up and head to giant sinkholes where they dump the goods.
 - Some argue that the government wastes its resources, as if it were pouring them down a giant sinkhole.

Some argue that the government sometimes does good by engaging in such a wasteful purpose.

Government Consumption

- Government Produces Many Services
 - National Defense
 - Education
 - National Parks
 - Hospitals
 - Justice

Government Consumption

- Government Produces Many Services
 - National Defense
 - Education
 - National Parks
 - Hospitals
 - Justice

Are these wise uses of GDP?

Government Consumption

- Government Produces Many Services

We should always provide a test of efficiency.

$$Cost_{Govt} > Cost_{Private}$$

- Justice

Government Consumption

- Government

We should always be efficient
Cost_{Govt}
 – Justice

This is a subtle point. Part of the cost occurs if the government produces “one size fits all” goods and people would like slightly different goods.

Right Level of Government?

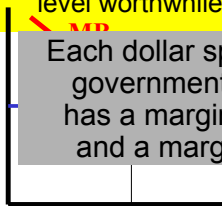
And even assuming the government is an efficient provider of the service, is the level worthwhile?



Right Level of Government?

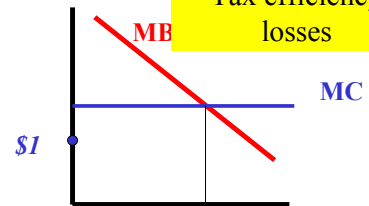
And even assuming the government is an efficient provider of the service, is the level worthwhile?

Each dollar spend on a government program has a marginal benefit and a marginal cost.

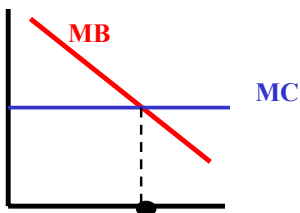


Right Level of Government?

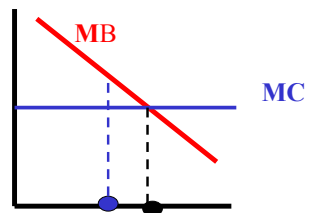
$MC > \$1$.
 Tax efficiency losses



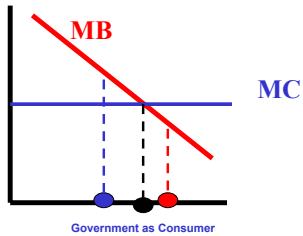
Set $MB = MC$



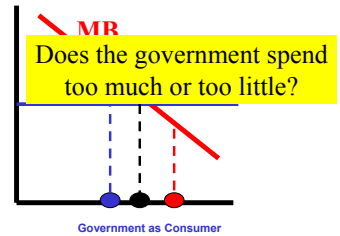
Too Little?



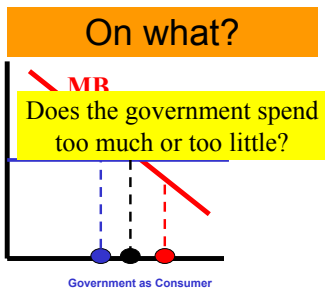
Too Much?



Government Consumption



Government Consumption



What Should be done

Determine the benefits and costs.

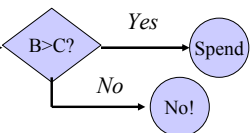
Benefits and Costs

Determine the benefits and costs.

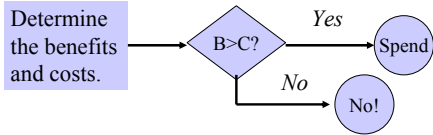


The Decision

Determine the benefits and costs.

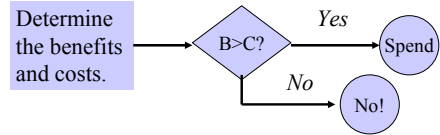


Project by Project



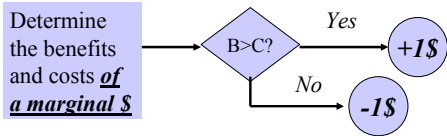
Do for each project!

On the Margin



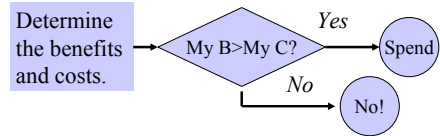
And do it on the margin!

On the Margin



And do it on the margin!

Logrolling 101



End

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