



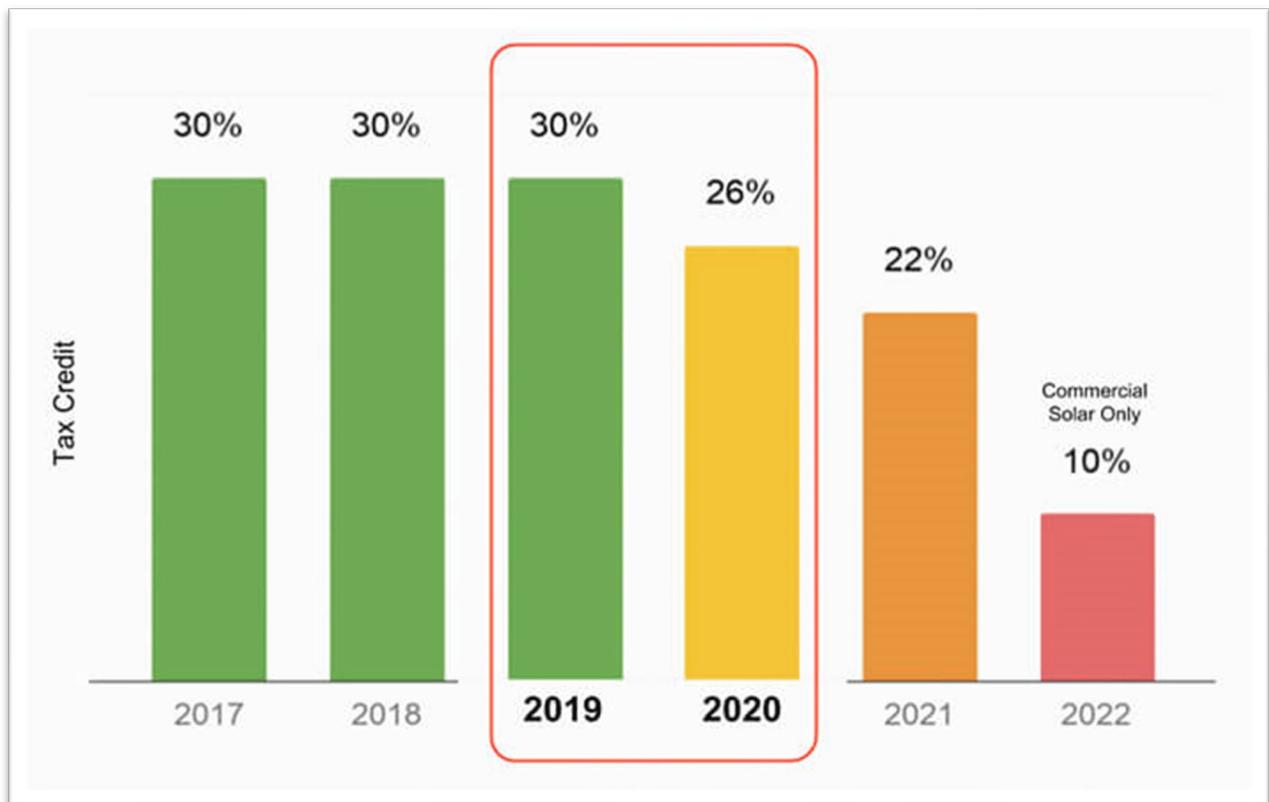
Economics - Fiscal Policy

Supplemental lesson plan for AP Macroeconomics and Economics 12th grade

One of the ten principles of economics covered in the AP Macroeconomics curriculum states that governments can sometimes improve economic outcomes. Our government uses fiscal policy in many ways to affect market behavior, from allowing homeowners to deduct mortgage interest on their income taxes to exorbitant excise taxes on cigarettes. Questions for discussion: Why does the federal government want to encourage home ownership? What *economic* reasons does the government have for wanting to discourage smoking?

Energy subsidies can be used to achieve a variety of goals: To provide affordable energy for low income members of society, improve market outcomes to account for unpriced externalities, foster new technology by driving down costs, reduce dependence on imports, and create new economic activity and jobs.

Congress passed the solar Investment Tax Credit (ITC) in 2006 to support the growth of the solar energy industry in the United States. You may want to use this as an opportunity to discuss the difference between a *tax deduction* and a *tax credit*. These tax benefits are scheduled to phase out over time:



Use the following link to look up data on the growth of solar energy in the U.S., as well as the feasibility of installing solar power in your home.

<https://www.energy.gov/science-innovation/energy-sources/renewable-energy/solar>



Questions for Discussion:

How much of this growth is because of the ITC? This question will naturally lead to the larger economic issue: How can we measure the success of a policy without hard data on question #1?

In a mixed economy that leans toward the free market, why does our government subsidize any industry?

What other industries receive tax incentives or other government subsidies? The following link may help with a description of the different kinds of subsidies and those industries that benefit from them.

<https://www.thebalance.com/government-subsidies-definition-farm-oil-export-etc-3305788>

What are other countries doing, if anything, to promote the growth of their solar industry?

<https://data.worldbank.org/indicator/EG.FEC.RNEW.ZS?end=2015&start=2004>

Lastly, discuss the impact of subsidies on the economy using the equation:

$$Y = MPC(Y - T) + I + G + NX$$