

**Lecture 58 Terms:**

- Lester Thurow- He created the "zero sum" economic idea. In the zero sum theory, when one person gains, others must lose, resulting in an overall change equaling zero.
- Reaganomics- The economic policy employed by Reagan, known as voodoo economics, where you cut taxes, increase spending, and somehow lower taxes.
- Voodoo economics- The term coined by Bush Sr. in order to separate himself from the Reagan committee's economic policies so he could run for president.
- Supply Side economics- This is also known as "trickle down theory", where if money is pump primed at the top, the wealth will "trickle" down to everyone. This, unfortunately, was too ideal to work as the rich did not make the investments that the government expected them to.
- Deregulation- The return to laissez faire during the Reagan years meant that businesses were restricted by fewer laws. This was a cause for the recession of 1980s because without government regulation, the banks began making poor and riskier investments.
- Trade deficit- Trade deficits are caused by an unfavorable balance of trade. In the Clinton years this began to happen with Japan. Currently the US still buys more Japanese goods than the Japanese buy US goods.
- Gentrification – The renovation and repair of older neighborhoods by the middle class which displaces the poor in that area.
- Downsizing- The need of a business to make their corporation smaller as a whole, usually involving layoffs in order to still gain a profit on net losses. Many companies bought other companies and then shut them down.
- Free Lunch – Free aid from the government, like education or unemployment benefits.

**Lecture 58 Summary:**

When Reagan took over the presidency, he initiated his "New Federalism" policies, also referred to as "Reaganomics" or "Voodoo economics," His basic program involved plans to make larger tax cuts, increase military expenditure, and lower the deficit. However, he ended up tripling the debt and quadrupling the deficit for several reasons. First, Reagan utilized supply side economics, giving most tax cuts and benefits to the rich, expecting the wealthy to stimulate the economy by investing in business. Deregulation and laissez faire policies meant that businesses took more risks and companies engaged in hostile takeovers to control industries. Anti-union policies hurt the middle class and working class, lowered wages, and thus decreased the average American's purchasing power. High military spending led to deficit and debt problems. OXPC occurred as shopping malls proliferated and a stock market crash occurred in 1987. When George H. W. Bush became the president, he was equally unsuccessful in easing the recession and in 1992 voters turned to Democratic candidate Bill Clinton who encouraged smarter spending policies and increasing taxes to get rid of the debt. Because of the technology boom, Clinton ended his administration with a surplus but encountered several problems including a trade deficit with Japan, an energy crisis, increasing personal debt, and outsourcing to Mexico as a result of the North American Free Trade Agreement (NAFTA).

### **LP 58 Questions:**

1. What went wrong with Reaganomics?
  - a. taxes weren't cut
  - b. military spending dropped
  - c. George Bush Sr. didn't support it at the time
  - d. the deficit went up
  
2. What is supply side economics?
  - a. the trickle down theory
  - b. Keynesian economics
  - c. capitalism
  - d. a communist-type economic policy
  
3. Under Reaganomics, which group received the largest tax cuts?
  - a. middle class
  - b. minorities
  - c. upper class
  - d. federal employees
  
4. At it's peak, what was the federal deficit under Reagan?
  - a. .5 trillion
  - b. 2 trillion
  - c. 3 trillion
  - d. 4 trillion
  
5. What happened to Bush Sr. policy on taxes?
  - a. taxes rose when he said they wouldn't
  - b. taxes fell when he said they would fall
  - c. taxes stayed the same
  - d. there was a change in taxes, but Bush Sr. had no stance on taxes
  
6. Why was it not Bush Sr.'s fault for the recession?
  - a. he couldn't control the economy
  - b. it was too sudden for anyone to predict during his term
  - c. he inherited the recession
  - d. his economic policies were predicted to boost he economy
  
7. What was one of the ways Clinton cut the deficit?
  - a. raised taxes for minorities
  - b. created tariffs for imported goods
  - c. he had a tight fiscal policy
  - d. increased military spending
  
8. What trade issue does the US have with Japan?
  - a. Japan is buying too many US goods

- b. Japan isn't buying US goods
  - c. The US isn't buying Japanese goods
  - d. The US is only buying from European markets
9. What economic policy did Bush Sr. use?
- a. Reaganomics
  - b. supply side economics
  - c. Keynesian economics
  - d. Bushinomics
10. What allowed the banks to make poor investments and lose money in the 80s?
- a. they had too much money
  - b. people were withdrawing too much money, and the banks need money
  - c. there was a return to laissez faire during the Reagan years
  - d. economists were poorly trained at the time
11. Keynesian economics focuses on:
- a. demand
  - b. supply
  - c. power to invest
  - d. money for the wealthy
12. Which of the following was NOT an aspect of Reaganomics?
- a. tax cuts
  - b. increased regulation
  - c. increased defense spending
  - d. supply side economics
13. "Zero Sum" is
- a. an idea by Lester Thurow
  - b. a part of Reaganomics
  - c. balanced trade
  - d. a & b only
14. Which of the following did NOT contribute to the 1981 recession?
- a. OXPC
  - b. unsmooth boom
  - c. credit cards
  - d. spending on education
15. George H. W. Bush ran on which policy?
- a. Persian Gulf War
  - b. friendliness with Soviets
  - c. tough stance against Soviets
  - d. fewer taxes

16. Bill Clinton ran on which economic policy?
  - a. deficit spending to relieve problems of poor
  - b. lower interest rates
  - c. tight fiscal policy
  - d. fewer taxes
  
17. Which of the following about Bill Clinton did NOT appeal to the American public?
  - a. identified with common man
  - b. modest roots as
  - c. preached hope
  - d. paid for a child's college education in protest of cuts on educational spending
  
18. Which of the following was a problem with the Clinton Administration?
  - a. was unable to create balanced budget
  - b. enterprise zones were unsuccessful
  - c. low consumer confidence
  - d. free trade
  
19. How did the first Persian Gulf War start?
  - a. it was provoked by George H. W. Bush
  - b. Saddam Hussein invaded Kuwait
  - c. New Federalism
  - d. a & b only
  
20. Which was NOT a reason why Reaganomics was ineffective?
  - a. there was not enough money to spend on defense
  - b. banks made bad investments
  - c. the rich did not invest
  - d. taxes were too low to pay for Reagan's programs