**Tasks**

1. Write a definition of ‘supply side theory’ using the handout.
2. What is the difference between a ‘supply side’ government response and a ‘demand’ Keynesian government response?
3. Complete the match up of key economic terms below.

**Challenge**

Predict what might be the upsides and downsides of both of the responses (Keynes and Reagan). Whose plan do you believe is better (if any)? Why?

|  |  |  |
| --- | --- | --- |
| Reaganomics |  | Gross National Product - The aggregate (combined) value of goods and services produced in a country and by Americans abroad. |
| GDP | An increase in the price of goods over time. |
| Per capita income | Slow economic growth with high unemployment and rising prices. |
| GNP | Disposable income relative to inflation, i.e. real prices. |
| Real GNP | The money you have left to spend or save after tax |
| Inflation | Focusing on the supply rather than the demand for products in the economy. This meant governments would concentrate on inflation-free economic growth rather than unemployment and providing welfare safety nets. If restraints on production were removed, the better-off would benefit and this would ‘trickle down’ to the poorest. |
| Stagflation | Gross Domestic Product - The value of goods and services produced by a country in a year. |
| Supply-side economics | When the government is spending more than its revenue from taxes etc. |
| Disposable income | Gross National Product adjusted to match inflation. |
| Real disposable income | Removing federal restrictions from businesses e.g. minimum wage expectation. |
| Deregulation | The non-elected officials that administer and make decisions on government policy. |
| Deficit | GDP divided by the number of people in a country. |
| Bureaucracy | Reagan’s economic philosophy, which emphasised low taxes and deregulation, which it was thought would stimulate the economy. |

**Ronald Reagan Vs. Keynes**

**Comparing Supply Side Economics & Keynesian economics**

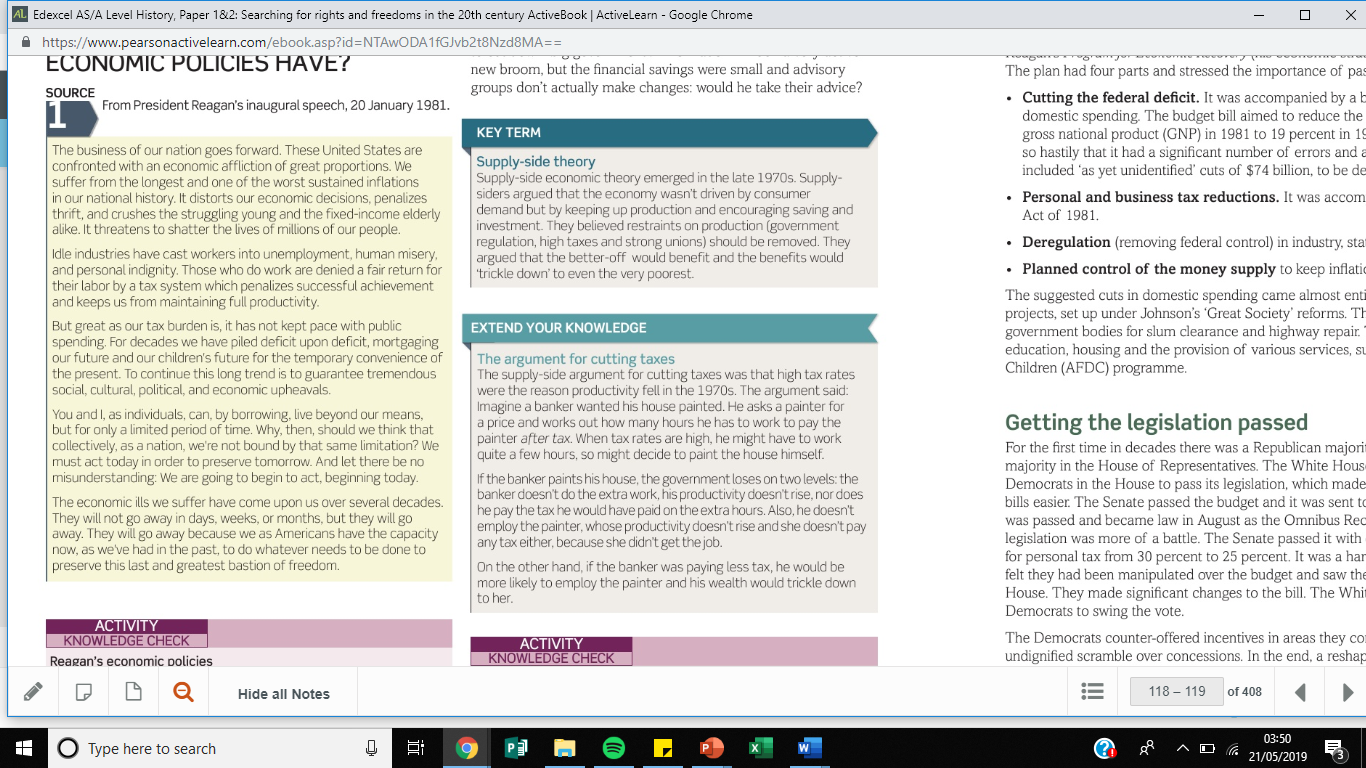
**Economic recession**

Consumer demand for goods and services decreases, and the nation’s factories and business reduce their output, resulting in an overall slowing of the economy



**A Keynesian Government Response**

The government itself increases spending on goods and services in order to increase demand and encourage economic output by factories and businesses



**Economic Recovery**

Employment increases, consumer demand for goods and services increases, and economic output rises, resulting in an overall recovery of the economy

**A Supply-side Government Response (Reagan)**

Supply siders argued during the late 1970s that the economy wasn’t driven by consumer demand but by keeping up production and encouraging saving and investment; restraints on production (strong unions, high taxes and government regulation) should therefore be removed. This means the government cuts taxes in order to encourage consumer spending as well as consumer saving, and investments are borrowed by creative entrepreneurs to grow their companies by creating new products and services. The better off would benefit and the benefits would then ‘trickle down’ to the poorest.