

CHAPTER 40

Section 5

REINFORCEMENT: Economic Concepts

Activity 389

Reaganomics

President Reagan's economic policies were partially based on an economic theory called supply-side economics. The President believed that if measures were taken to stimulate production or supply in the nation's businesses and industries, then unemployment could be lowered and inflation reduced.

There is a contrasting theory to supply-side economics, called demand-side economics. This theory maintains that the government revives the economy by stimulating the consumption of goods and services.

The diagram on this page outlines these theories. Notice that both economic theories have the same objective: they emphasize different methods to achieve the goal. Study the diagram and answer the questions.

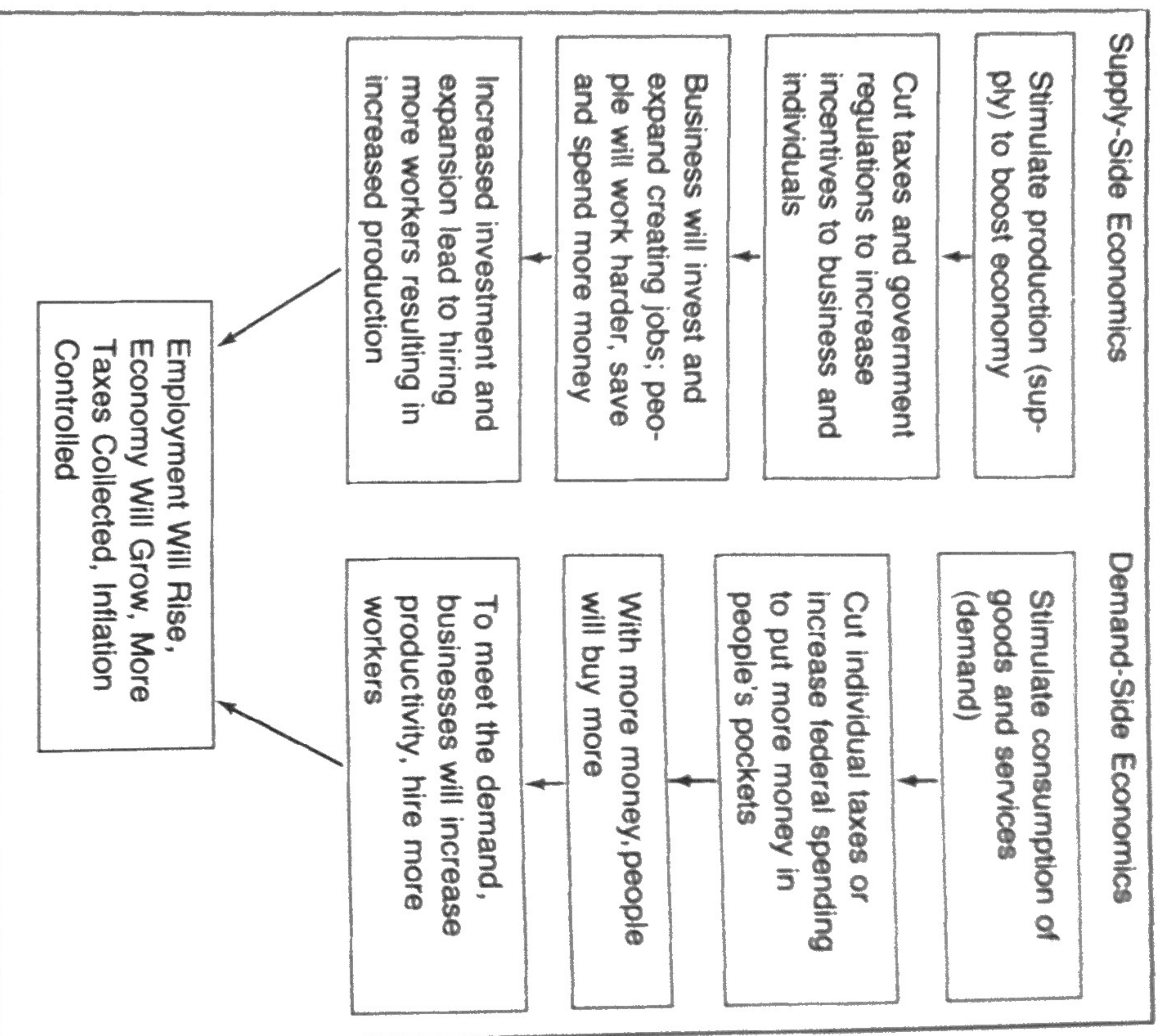
COMPREHENSION Summarizing Main Ideas

1. What is the economic goal common to both supply-side and demand-side economics?

2. Summarize supply-side economics.

3. Summarize demand-side economics.

Supply and Demand



APPLICATION Providing Examples

4. In the space provided indicate which economic theory each of the following measures reflects. Write S for supply-side economics or D for demand-side economics.

- _____ cut taxes and government regulations
- _____ increase all federal spending
- _____ reduce individual taxes
- _____ increase allotment of food stamps
- _____ eliminate regulatory federal agencies

EVALUATION Judging Policies

5. Which theory do you think is more effective? Why?
