Assignments:

**Estimating the Cost of Raising Children.** Answer the questions below using information in your class notes and Chapter 6, "How Much Do Kids Cost?" in *Everyday Economics*.

What is an estimate of the **nominal cost** to a **middle class** family of raising a child born in 2010 to age 18? (Sum the costs in the “Middle” column of the table).

$286,860 is the answer. Nominal means not adjusted for inflation! 2010 TO age 18 means sum the column of numbers for a middle class family.

The cost of raising a child that is given in *Everyday Economics* is in **nominal terms**. The cost is said to be in nominal terms since it is expressed in terms of the current dollar amounts that would be spent at some time in the future. For example, a low-income family should expect to spend $10,150 on raising a 7-year-old child in year 2017. A low-income family would be expected to spend less than $10,500 on raising a 7-year-old child today. This is because a dollar is worth more today in terms of purchasing power than a dollar will be worth in year 2017 (i.e., inflation will push prices up during the future years making a dollar less valuable in terms of purchasing power).

You should note that the cost of raising a child that is given in your class notes is expressed in 2007 dollars (constant dollars). You can use the inflation rate and the expected rate of inflation that will occur at some time in the future to estimate the nominal cost of raising a child at some time in the future from the 2007 numbers presented in class. This topic was covered in lab last week.

Why do you think that the **real cost** (adjusted for inflation) of raising a child increases as the child gets older? For example, why would you expect to spend more money this year raising an 8-year-old child than a 4-year-old child in real terms?

Real means adjusted for inflation! As child gets older, clothes are more expensive, shoes are more expensive, toys get more expensive (they want more expensive ones), eats more, more activities (little league, dance, cheerleading, soccer, birthday parties, friends houses, etc.) that requires more spending on accessories and transportation.
What is the relationship between marital status and the cost of raising a child? (Help: Look in your lecture notes, and on page 31 of *Everyday Economics*.)

Little or none with respect to monetary cost within the same income level. Non-monetary cost is a different story. Two parent families can share the time burden between the two parents. Single parent families don't have that luxury. Time requirements fall on the custodial parent for the most part. When I used to get home from work, it was my turn to spend time with our son Zachary. It was time for my late wife to get a break! There was many a Friday evening when I would drive into the driveway that my late wife was waiting with my duffel bag, Zack's duffel bag, and Zack. She was wanting to know WHEN I would be leaving for the hunt club for the weekend! She was ready for a break. It is tough for a single parent, no doubt. So, think before any hanky panky, and be ready for the children that may follow. Unfortunately, divorce rates are near the 50% level as reported by mainstream news media. So, think before the "I do's" as well.

What are the three largest expense categories associated with raising a child?

**Housing 33%, food 17%, transportation 14%**

[http://legacy.ncsu.edu/classes/are201005/lecture/lectur2.pdf slide #8](http://legacy.ncsu.edu/classes/are201005/lecture/lectur2.pdf) and page 31 of Walden text

What is the major non-dollar spending cost associated with raising a child?

**Time, time, time, time, lots of time!**
Define fiscal policy?

http://legacy.ncsu.edu/classes/are201005/lecture/lectur3.pdf

Slide #2

Fiscal policy is the deliberate use of taxes, transfer payments, and government payments for goods and services to influence the level of production (gross domestic product), income, prices and employment in the economy. Fiscal policy is often referred to as government tax and spend policy.

How does the federal government raise money to fund the federal budget?

Through taxes such as excise taxes, social insurance contributions (don't you just love the syntax), income taxes (individual and corporate), user fees, and through borrowing to finance any deficit. Borrowing is facilitated by the sale of treasury securities.

What is a breakdown of the federal revenue collected in 2005?

http://legacy.ncsu.edu/classes/are201005/lecture/lectur3.pdf

Slide #39

What does the government do with your tax dollars? Provide a breakdown of the 2005 Federal Budget Expenditures between defense, Social Security, Medicare, Medicaid, interest on national debt, and "other" expenses?

http://legacy.ncsu.edu/classes/are201005/lecture/lectur3.pdf

Slide #37
What are two useful measurements of the size of government?

Chapter 22 of Walden Text, page 131, third paragraph, last sentence, and fourth paragraph, last sentence.

1. Real dollar spending per person (per capita)

2. Govt. spending as a percentage of GDP

What has the trend in the real level of government spending per person been over the last several decades?

Walden text, page 133. Find 1975 on x-axis. Extend a perpendicular up to the crooked line in the graph and place a point there with your pencil. Find 2011 on the x-axis. Extend a perpendicular up to the crooked line in the graph again, and place a point there with your pencil. Now, get a straight edge and connect the two dots (points). You have drawn a "trend line". Is the trend line sloping up or sloping down?

Slopes up doesn't it? So, the trend is up.

What has the trend in the level of government spending as a percentage of the Gross Domestic Product been over the last several decades?

Do the "trend line" thing again, and I think you will find the trend is upward. From ~ 27% in 1959 to ~ 35% in 2011.

What are two reasons why we should expect the nominal level of government spending to increase over time?

1. Inflation
2. More people in country (population increase)

Walden text, page 131, second paragraph, second sentence. Read to end of paragraph.

Should the nominal level of spending be used to evaluate the size of government?

NO. Not at all. Nominal level of spending should not be used because it is not adjusted for inflation or changes in population. Walden text, page 131, first two paragraphs and the question above should be a clue.
Understanding the Federal Debt and Federal Budget Deficits: Answer the questions below using information in your lecture notes and Chapter 23, "Will the Real Deficit and Debt Stand Up" in Everyday Economics.

What is the definition of the federal debt?

Total amount of money owed by the federal government. Add up all the deficits and surpluses over the history of the U.S. and get the federal (national, public) debt.

Slide #6, Lecture Series #3.

Q: What is the difference between the Debt and the Deficit?

A: The National Debt is the total amount of money owed by the government; the federal budget deficit is the yearly amount by which spending exceeds revenue. Add up all the deficits (and those few budget surpluses we've had) for the past 200+ years and you'll get the current National Debt.

What are two useful measurements of the federal debt?

1. Real debt per person
2. Debt as a percentage of GDP

Requires you to remember one of the measures of govt. spending and apply the same adjustment for inflation and population to the debt. I know, this one was "tricky", but a teacher should challenge the cognitive thought processes of his/her students from time to time. Atrophy of neural synapses is a terrible thing. :) 

Walden text, page 137, paragraph 4, last sentence.

What has been the trend in the federal debt as a percentage of GDP from 1981 to 2010?

Most correctly, as a percentage of GDP, the debt has trended upward between 1981 and 2010.

Walden text, page 139, do the "trend line" thing again.

What is the definition of the federal budget deficit?

The yearly amount by which government spending exceeds government revenues.

When govt. spending is > govt. revenues for a given year.
What are two useful measurements of the federal budget deficit?

**Yep! You guessed it. That neural synapse thing again. :)**

1. Real deficit per capita (per person)
2. Deficit as a percentage of GDP.

2. can be found on page 137 of Walden text, 4th paragraph, next to last sentence.

What has been the trend in the federal budget deficit as a percentage of GDP from 1983 to 2010?

Trend line thing again. As a percentage of GDP (page 138 of Walden text), the budget deficit has been trending upward between 1983 and 2010.

How can the federal government spend more money than it takes in from taxes?

When the federal government spends more money than it takes in, it must BORROW money just like when you and I spend more money than we bring in. Folks like me and you go to banks for loans or we use plastic (visa, mastercard, discover, etc.) Govt. borrows money by auctioning off treasury securities (bills, notes, and bonds) to the public at a discount from face value. In 2005, the government had an annual federal deficit of $318.3 billion. Where did the government get that $318.3 billion that it did not have in revenues? Well, the government does what most folks do when they are a little short, they borrow the money. They borrow money by auctioning U.S Treasury Securities in the form of treasury bonds, notes and bills at a discount from face value. A Treasury bill is a certificate representing a short-term loan to the federal government that matures in three, six or 12 months. A Treasury note matures in two to 10 years. A Treasury bond matures in more than 10 years. A 12 month Treasury bill may have a face value of $10,000, but is auctioned to the highest bidder at discount. For example, the winning bid may be $9,500. The bidder pays $9,500 for the security, and at the end of 12 months the government pays the holder of the bill $10,000. The $500 difference is the interest paid to the purchaser.

The above is from slide #3, lecture series #3

[http://courses.ncsu.edu/classes/are201005/lecture/lectur3.pdf](http://courses.ncsu.edu/classes/are201005/lecture/lectur3.pdf)