

Lab #3
Agricultural and Resource Economics
(ARE 012)

Name: _____
Time/Day of Lab: _____

This lab assignment is worth 100 points.

Purpose of Lab:

This assignment will teach you how to estimate the cost of raising children, show you how to interpret the government's role in the economy, examine the significance of the federal debt and previous federal budget deficits, and introduce you to several benchmarks that are used to gauge economic activity.

Assignments:

1. 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*.**

- a) What is an estimate of the **nominal cost** to a **middle class** family of raising a child born in 2007 to age 18? (Sum the costs in the "Middle" column of the table).

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 \$9,910 on raising a 7-year-old child in year 2014. A low-income family would be expected to spend less than \$9,910 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 2014 (i.e., inflation will push prices up during the future years).

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. This topic was covered in lab last week.

b) 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?

c) What is the relationship between marital status and the cost of raising a child? (Help: Look in your lecture notes, and on **page31** of *Everyday Economics*.)

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

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

e) What are two useful measurements of the size of government?

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

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

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

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

3. 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*.

a) What is the definition of the federal debt?

b) What are two useful measurements of the federal debt?

c) What has been the trend in the federal debt as a percentage of GDP from 1981 to 2007?

d) What is the definition of the federal budget deficit?

e) What are two useful measurements of the federal budget deficit?

f) What has been the trend in the federal budget deficit as a percentage of GDP from 1983 to 2007?

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

4. Understanding Economic Benchmarks:

Homework Assignment: Complete items one and two below and submit them with Lab #4 next week.

1) Read the article entitled "**What's the Speed Limit on Economic Growth?**". This article may be found in the electronic reserve room of D.H. Hill library

a) Provide complete and thorough answers to the five questions at the end of the article.

b) This homework assignment will be due in lab next week.

2) Read the following articles from the Supplementary Readings page of the class web site:

"The Greenspan Rule", Wall Street Journal (WSJ) June 29, 1999

"The Fed, Not the Economy, Is Overheating", WSJ, June 29, 1999

"The View From the Fed", WSJ, June 29, 1999

"Soft Landing' Leaves Economists Debating the Need for Any Landing", WSJ, August 11, 2000

a) Please summarize **each** article with a one paragraph summary.

b) Compare what you read in the article "What's the Speed Limit on Economic Growth?" to what you read in the article "The Fed, Not the Economy, Is Overheating."

c) Is there disagreement among economists about how fast the economy can grow before stimulating inflation?

d) What do you think? Please do not answer, "I don't know", think and develop a reasonable response.