

Economic Functions of Government

1. Maintain legal and social framework

- a. Create laws and provide courts
- b. Provide information and services to help the economy function better
- c. Establish a system of money
- d. Define and enforce property rights
- e. Regulate contracts
- f. This function helps ensure innovation and, as a result, economic growth

2. Maintain Competition

- a. Create and enforce antitrust laws
 - i. Antitrust laws – rules that prevent businesses from working together to control too much of an industry or set prices
 - ii. Note: It is difficult and expensive to detect unfair competition
- b. Regulate natural monopolies
 - i. Natural monopoly – an industry in which there are not enough consumers to support more than one producer. Example: Electricity or water
- c. This function keeps producers responsive to consumers
- d. This function improves efficiency and competition, and as a result, innovation and economic growth

3. Providing Public Goods and Services

- a. Providing goods or services that markets are unwilling or unable to provide – Example: National defense, roads
- b. There are costs and benefits of all government actions
- c. Problems of free riders – people who use the product but don't pay for it

4. Redistributing Income

- a. Taking taxes money and giving it back out in the form of services, safety nets, and public goods
- b. Higher income tax rates for those who make more money
- c. Social Security
- d. Aid for dependent children
- e. Medicare and Medicaid

5. Correcting for Externalities

- a. Externality – a spill over – something that occurs as a result of the production process that effects those outside of the market
- b. Taxes collected to pay for cleanup such as environmental cleanup
- c. Subsidies to encourage positive externalities such as education
- d. Subsidy – A government payment that supports a business or market

6. Stabilizing the Economy

- a. The gov't plans it taxing and spending plans and controls the money supply to try and influence the rate of inflation, reduce unemployment, and promote economic growth