Chapter 1

Individuals and Government

Answers to Text Problems

**1.** Given a point on the old production possibility curve, the outward shift allows movement in the northeast direction to a point on the new production possibility curve corresponding to an increase in production of both private and government goods and services.

**2.** The increased allocation of resources to government provision of health services implies that fewer resources can be used for other goods and services. The student should plot health care services on one of the axes and “all other goods and services” on the other axis. As production of health care services increases, given fixed resources and technology, production of other goods and services must decline.

**3.** Social Security pensions are government transfers. Except for a small amount of purchases for personnel and other resources to administer the transfer, no government purchases are required.

**4.** The debt accumulated by past budgets amounts to many times more than the amount of federal spending. It will take many years to retire the outstanding debt. The interest on the outstanding debt will have to be paid for many years until the debt is retired. Running a budget surplus would accelerate the rate of debt repayment.

**5.** Even though many programs are federally funded, such as, Medicare, programs such as Medicaid are partially state funded. Consequently, the aging population will increase state expenditures as Medicaid and other healthcare programs become more expensive due to increased demand. The aging population will also impact state government revenue as the population leaves the workforce and contribute less and less in the form of personal income tax, sales tax and property tax.