

# ECONOMICS IN THE REAL WORLD

## TEACHER RESOURCES

### STARTER ACTIVITY



ADAM SMITH  
INSTITUTE



#### **Example 1:**

In 1981 President Ronald Reagan signed into law the Economic Recovery Tax Act which cut marginal income tax rates by 25% across a three year period. This was one of the biggest tax cuts in history.

Between 1983 and 1986, which saw the effect of the full tax cut, federal income tax revenue increased by 2.7% annually, and total government income tax revenue increased by 3.5% annually.

#### **Example 2:**

In the early 1930s in the United States during the Great Depression, President Herbert Hoover increased the top marginal income tax rate from 25% to 63% as a part of the Revenue Act of 1932. The aim of this tax increase was to balance the budget and reduce the federal deficit during the economic crisis.

However, the tax increase had an adverse effect on the economy. The higher tax rates discouraged people from working and investing, leading to decreased economic activity. As a result, tax revenues fell, and the federal deficit continued to grow.

