

Chapter 13

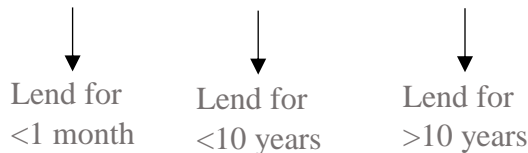
National Debt

- Deficit is a yearly number that starts at 0 and increases by 1 every year
 - Deficit means a shortage
 - Debt is the sum of the deficits of every year
 - National Debt = \$20 trillion
 - National GDP = \$19 trillion
- { Debt to GDP ratio = 105%

Debt Instrument:

- What is it?

Treasury Bill, Treasury Note, Treasury Bond



- Who owns these?
Citizens, states, companies, countries, etc.
China owns the most of our national debt.

Debt:

- If there was no debt, people would not let you borrow money.
- Debt can sometimes be good

More borrowing → More spending → Higher GDP

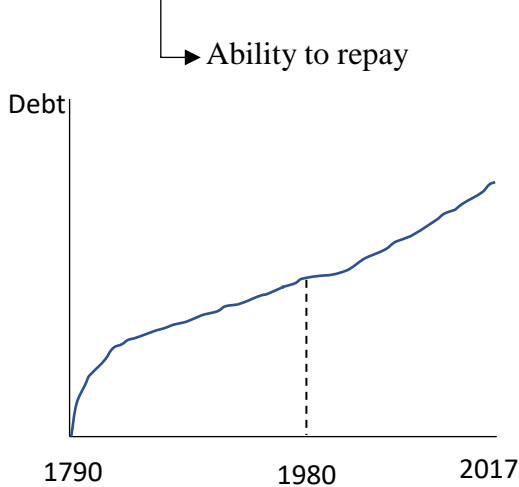
- Common saying: “With money an economy can run, with credit/debt it can fly.”
- When borrowing didn’t exist, life was very different and difficult.
- We wouldn’t have the assets without being able to borrow money
- The Treasury would pay you back when the treasury notes are due

National Debt { 70%
30%

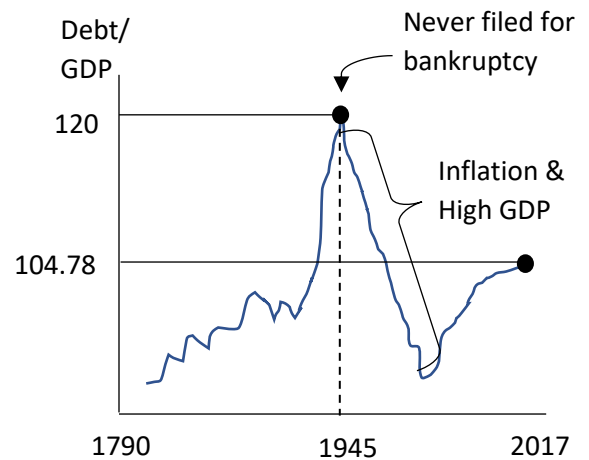
US Citizens, public, Bank, Fed, federal government, US companies, businesses, households, 401k, Social Security trust funds

China \$1.3 trillion \approx 1/20 of national debt
Japan \$1.2 trillion
OPEC \$300 billion

- We are happy that China is loaning us money because interest rates are so low. China is lending us through exports and can buy land, capital, etc.
- Has the debt ever been higher?
⇒ No, it has never been >\$20 trillion. When you look at someone's debt, look at debt to GDP/income.
- $\frac{Debt}{GDP} = 104.78\%$



This does not consider ability to repay, so it isn't accurate.



By looking at this graph, it looks like we are fine. We never filed for bankruptcy and never paid back our debt.

The Fed:

- Structure:
 - The Federal Reserve Bank System
 - New York Fed is the most important
- Functions:
 - Economic growth and stability
 - Financial Stability
- Tools:
 - Lender of last resort
 - Controller of the money supply
- The Fed is mostly independent from the central government
- Our money is backed by our trust in the government to keep/maintain its value
 - It used to be backed by gold, but we realized that it wasn't necessary
- There are problems with bartering
 - Double Coincidence of Wants → need a 3rd or 4th person