

Chapter 14

Deficit Spending and the Public Debt

14.1 Public Deficits and Debts: Flows versus Stocks

- 1) In the current year, a nation's government spending equals \$1.5 trillion and its revenues are \$1.9 trillion. Which of the following is true?
- A) The nation's national debt equals \$0.4 trillion.
 - B) This nation has a current year budget surplus of \$0.4 trillion.
 - C) This nation is currently running a budget deficit of \$0.4 trillion.
 - D) The nation has a current year trade surplus of \$0.4 trillion.

Answer: B

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 2) When government revenues exceed government outlays in a particular year, this is called
- A) a budget surplus.
 - B) a budget deficit.
 - C) the national debt.
 - D) fiscal policy.

Answer: A

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Suppose that the government of Springfield spends \$2 trillion in 2011 and receives tax revenues of \$1.5 trillion. Which of the following is true?
- A) Springfield has a budget surplus of \$0.5 trillion.
 - B) Springfield has a budget deficit of \$0.5 trillion.
 - C) Springfield has a trade deficit of \$0.5 trillion.
 - D) Springfield has a trade surplus of \$0.5 trillion.

Answer: B

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Revised

- 4) When government spending exceeds government revenues during a given period of time,
- A) a budget deficit exists.
 - B) a budget surplus exists.
 - C) the national debt must be decreasing.
 - D) Congress is obliged to raise taxes.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 5) How does a government budget deficit occur?
- A) A government's tax revenues exceed its spending.
 - B) A government's spending exceeds its tax revenues.
 - C) If a nation carries a public debt, it must be running a deficit every year.
 - D) A nation earns more on exports than it spends on imports.

Answer: B

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Stocks change _____ whereas flows relate to _____.
- A) within a given period of time; changes between points in time
 - B) only at the end of each year; amounts at a given point in time
 - C) between points in time; changes within a given time period
 - D) and that causes flows to change; changes that have no impact on stocks

Answer: C

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Which of the following is NOT an example of a flow variable?
- A) planned investment
 - B) capital stock
 - C) The federal deficit
 - D) inventory investment

Answer: B

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 8) If the government's spending exactly equals its revenues during a budget year, that government is
- A) running a budget deficit.
 - B) experiencing a budget surplus.
 - C) balancing its budget.
 - D) paying off its public debt.

Answer: C

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Which of the following is a stock variable?
- A) public debt
 - B) wealth
 - C) money supply
 - D) all of the above

Answer: D

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

10) How does the federal government finance a budget deficit?

- A) It redeems its IOUs.
- B) It purchases U.S. Treasury bonds.
- C) It cuts spending on entitlement programs.
- D) It borrows funds by selling Treasury bonds.

Answer: D

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

11) Other things being equal, during a period when the federal government issues more Treasury securities to borrow funds,

- A) the flow of government expenditures during that period must exceed the flow of tax revenues.
- B) the flow of government expenditures during that period must exceed the stock of tax collections.
- C) the stock of government deficit spending during that period must exceed the flow of tax revenues.
- D) the stock of government deficit spending during that period must exceed the stock of tax collections.

Answer: A

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

12) If the public debt increased by the same amount each year during the past three years, then

- A) the U.S. government must have operated with the same budget surpluses during the past three years.
- B) the U.S. government must have experienced budget surpluses that increased by the same amount each of the past three years.
- C) the U.S. Treasury must have issued securities to fund a flow of government spending that exceeded a flow of tax revenues by the same amount during each of the past three years.
- D) during each of the past three years, the U.S. Treasury must have bought back the same amount of securities that had previously been issued to cover deficits experienced more than three years ago.

Answer: C

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Revised

13) The total value of all outstanding federal government securities is

- A) a flow variable.
- B) the budget deficit.
- C) total personal wealth.
- D) none of the above.

Answer: D

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 14) A government budget deficit is
- A) an excess of government spending over government revenues during a given time period.
 - B) a situation in which the government's spending is exactly equal to the total taxes and other revenues it collects during a given time period.
 - C) the total value of all outstanding federal government securities.
 - D) all federal government debt irrespective of who owns it.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 15) If the government spends more than it receives in taxes during a given interval, then the result is
- A) a balanced budget.
 - B) the gross public debt.
 - C) the net public debt.
 - D) a government budget deficit.

Answer: D

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Which of the following statements about the budget deficit is true?
- A) It is a stock variable.
 - B) It is a flow variable.
 - C) It is equal to the public debt.
 - D) None of the above.

Answer: B

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 17) A federal deficit of \$300 billion means that
- A) the government has a total debt of \$300 billion.
 - B) government spending is \$300 billion a year.
 - C) the government is spending \$300 billion a year more than it is collecting in taxes.
 - D) the government plans on collecting \$300 billion in taxes this year.

Answer: C

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 18) A government balanced budget is
- A) an excess of government spending over government revenues during a given time period.
 - B) a situation in which the government's spending is exactly equal to the total taxes and other revenues it collects during a given time period.
 - C) the total value of all outstanding federal government securities.
 - D) all federal government debt irrespective of who owns it.

Answer: B

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 19) If the government spends exactly what it receives in taxes during a given interval, then the result is
- A) a balanced budget.
 - B) the gross public debt.
 - C) the net public debt.
 - D) a government budget deficit.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 20) If the government spends less than what it receives in taxes during a given interval, then the result is
- A) a balanced budget.
 - B) an entitlement.
 - C) unrealized public debt.
 - D) a government budget surplus.

Answer: D

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 21) A government budget surplus is
- A) a situation in which the supply of goods in the economy is greater than the demand for goods.
 - B) a situation in which the amount spent by the government is greater than the amount collected in taxes.
 - C) the public debt.
 - D) an excess of revenues over government spending.

Answer: D

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

22) The public debt is

- A) an excess of government spending over government revenues during a given time period.
- B) a situation in which the government's spending is exactly equal to the total taxes and other revenues it collects during a given time period.
- C) the total value of all outstanding federal government securities.
- D) all federal government debt irrespective of who owns it.

Answer: C

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

23) Which of the following statements about the public debt is true?

- A) It is a stock variable.
- B) It is equal to the budget deficit.
- C) It decreases when the government runs a budget deficit.
- D) All of the above.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

24) The public debt can be thought of as

- A) the total amount consumers owe on their credit cards.
- B) the total amount in taxes consumers pay to the government.
- C) accumulated budget deficits and surpluses.
- D) the total amount the government spends for goods and services.

Answer: C

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

25) Which of the following statements is true about the difference between the public debt and the government budget deficit?

- A) The public debt always increases while the government budget deficit may increase or decrease.
- B) The public debt for this year will increase or decrease depending upon whether there is a government budget deficit or a government budget surplus.
- C) The public debt is a flow measure and the government budget deficit is not a flow measure.
- D) There is no relationship between the public debt and the government budget deficit since one is a stock measure and the other is a flow measure.

Answer: B

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Which of the following will NOT cause the public debt to change?
- A) Collection by the government of \$200 billion more in taxes than it spends
 - B) Government budget deficit
 - C) Government budget surplus
 - D) Balanced budget

Answer: D

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Public debt is held as
- A) corporate bonds and common stocks of the largest companies.
 - B) Federal Reserve Notes.
 - C) U.S. Notes.
 - D) Treasury Bills, Treasury Notes, Treasury Bonds, and U.S. Savings Bonds.

Answer: D

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Which of the following is true when a budget deficit exists?
- A) Government expenditures exceed tax revenues.
 - B) Tax revenues exceed government expenditures.
 - C) A trade surplus exists.
 - D) Dissaving exists.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 29) A government budget deficit occurs during a budget year when
- A) tax revenues > government spending.
 - B) tax revenues = government spending.
 - C) tax revenues < government spending.
 - D) tax revenues + government spending = personal consumption.

Answer: C

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A government budget surplus occurs during a budget year when
- A) tax revenues > government spending.
 - B) tax revenues = government spending.
 - C) tax revenues < government spending.
 - D) tax revenues + government spending = personal income.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 31) If the government has a spending flow that exceeds the revenues it collects, the government will run a _____ that year.
- A) debt
 - B) deficit
 - C) debt and a deficit
 - D) surplus

Answer: B

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 32) While the budget deficit represents a _____, the public debt represents a _____.
- A) flow; flow
 - B) flow; stock
 - C) stock; stock
 - D) stock; flow

Answer: B

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 33) When government spending exceeds tax revenues during a specific time period, this is known as a
- A) government budget deficit.
 - B) government budget surplus.
 - C) balanced budget.
 - D) public debt.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB:

Question Status: Previous Edition

- 34) When government spending is less than the tax revenues during a specific time period, this is known as a
- A) government budget deficit.
 - B) government budget surplus.
 - C) balanced budget.
 - D) public debt.

Answer: B

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB:

Question Status: Previous Edition

- A) government budget deficit. B) government budget surplus.
C) balanced budget. D) public debt.

Answer: C

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB:

Question Status: Previous Edition

- A) there will be budget deficit.
B) there will be budget surplus.
C) automatic stabilizers do not kick in.
D) the public debt will be reduced.

Answer: A

Diff: 1

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- Suppose that the federal government had a budget deficit of \$80 billion in year 1 and \$90 billion in year 2, but that it experiences budget surpluses of \$40 billion in year 3 and \$20 billion in year 4. Also assume that the government uses any budget surpluses to pay down the public debt. At the end of these four years, the Federal government's public debt would have
- A) decreased by \$110 billion. B) increased by \$230 billion.
C) increased by \$110 billion. D) decreased by \$57.5 billion.

Answer: C

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- Suppose that the federal government had a budget deficit of \$80 billion in year 1 and \$10 billion in year 2, but it had budget surpluses of \$140 billion in year 3 and \$20 billion in year 4. Also assume that the government uses any budget surpluses to pay down the public debt. At the end of these four years, the Federal government's public debt would have
- A) decreased by \$70 billion.
- B) increased by \$250 billion.
- C) increased by \$70 billion.
- D) decreased by \$62.5 billion.

Answer: A

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 39) If the government has no debt initially, but then has annual revenues of \$10 billion per year for 4 years and annual expenditures of \$10.5 billion per year for 4 years, then the government has
- A) a budget surplus of \$0.5 billion per year and a debt of \$2 billion at the end of the 4 years.
 - B) a budget deficit of \$0.5 billion per year and a budget surplus of \$2 billion at the end of the 4 years.
 - C) a budget deficit of \$0.5 billion per year and a debt of \$2 billion at the end of the 4 years.
 - D) a budget surplus of \$0.5 billion per year and a surplus of \$2 billion at the end of the 4 years.

Answer: C

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Explain the differences between the public debt and the government budget deficit.

Answer: The public debt is a stock measured at a point in time, while the government budget deficit is a flow measure. The public debt changes as a result of government budget deficits or surpluses. The public debt is the total value of all outstanding federal government securities.

Diff: 2

Topic: 14.1 Public Deficits and Debts: Flows versus Stocks

AACSB: Analytic skills

Question Status: Previous Edition

14.2 Government Finance: Spending More Than Tax Collections

- 1) Since 2001, the U.S. government budget deficit
- A) has been approximately equal to 10% of U.S. GDP.
 - B) as a percentage of U.S. GDP has increased steadily each year.
 - C) as a percentage of U.S. GDP has decreased steadily each year.
 - D) none of the above.

Answer: D

Diff: 1

Topic: 14.2 Government Finance: Spending More Than Tax Collections

AACSB: Analytic skills

Question Status: Previous Edition

- 2) When was the last year the United States had a budget surplus?
- A) 2009
 - B) 1984
 - C) 1993
 - D) 2001

Answer: D

Diff: 1

Topic: 14.2 Government Finance: Spending More Than Tax Collections

AACSB:

Question Status: Revised

- 3) Since 1940, the U.S. government has experienced
- A) about the same number of years with budget deficits as with budget surpluses.
 - B) twice as many annual budget surpluses as annual budget deficits.
 - C) only one year with a budget surplus.
 - D) many more budget deficits than budget surpluses.
- Answer: D
Diff: 1
Topic: 14.2 Government Finance: Spending More Than Tax Collections
AACSB:
Question Status: Previous Edition
- 4) Expressing the U.S. federal budget deficit as a percentage of Gross Domestic Product (GDP)
- A) results in inflation-adjusted revenue and expenditure numbers.
 - B) helps us understand the size of the deficit relative to the size of the economy.
 - C) was useful through the 1980s, but is no longer helpful because both the deficit and real Gross Domestic Product (GDP) have grown so large.
 - D) is only useful if the budget deficit is rising at an annual rate of more than 4 percent.
- Answer: B
Diff: 2
Topic: 14.2 Government Finance: Spending More Than Tax Collections
AACSB: Analytic skills
Question Status: Previous Edition
- 5) What is true about government budget deficits and surpluses since 1940?
- A) Balanced budgets have been more common than government budget deficits or government budget surpluses.
 - B) There have been more government budget surpluses than government budget deficits.
 - C) There have been more government budget deficits than government budget surpluses.
 - D) The number of government budget deficits is about the same as the number of government budget surpluses.
- Answer: C
Diff: 1
Topic: 14.2 Government Finance: Spending More Than Tax Collections
AACSB:
Question Status: Previous Edition
- 6) Between the years 1998 and 2001, the U.S. government experienced
- A) budget surpluses.
 - B) balanced budgets.
 - C) budget deficits.
 - D) contractionary budget cycles.

Answer: A

Diff: 2

Topic: 14.2 Government Finance: Spending More Than Tax Collections

AACSB:

Question Status: Previous Edition

- 7) All of the following are possible explanations for the increase in U.S. government budget deficits as a percentage of GDP since the early 2001 EXCEPT

A) increases in tax revenues. B) increases in payments for entitlements.
C) increases in government spending. D) decreases in tax rates.

Answer: A

Diff: 2

Topic: 14.2 Government Finance: Spending More Than Tax Collections

AACSB:

Question Status: Previous Edition

14.3 Evaluating the Rising Public Debt

- 1) The difference between net public debt and gross public debt is

A) all government interagency borrowing.
B) the interest paid annually on the public debt.
C) the amount owed to individuals and firms outside the United States.
D) the current year's budget deficit from the amount of public debt at the start of the year.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Revised

- 2) The total value of all outstanding federal government securities is called

A) the budget deficit. B) the public debt.
C) the trade deficit. D) crowding out.

Answer: B

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Revised

- 3) According to the text, approximately what percentage of U.S. net public debt is held by foreign residents?

A) 20% B) 50% C) 800% D) 90%

Answer: B

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Revised

- 4) According to the text, the net public debt to Gross Domestic Product (GDP) ratio is currently about

A) 10%. B) 25%. C) 60%. D) 120%.

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Revised

- 5) Net public debt is the
- A) difference between tax revenues and government expenditures each year.
 - B) sum of accumulated government deficits and surpluses held by individuals and businesses and foreign institutions.
 - C) sum of accumulated government deficits and surpluses held by U.S. government agencies.
 - D) sum of accumulated government deficits and surpluses held by large money center banks.

Answer: B

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The amount of funds the Social Security system has loaned the federal government is
- A) included in the net public debt.
 - B) added to the gross public debt to calculate the net public debt.
 - C) not included in the gross public debt.
 - D) excluded from the net public debt.

Answer: D

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Since the late 1980s, the share of the net public debt owed to foreign interests has
- A) remained constant.
 - B) decreased.
 - C) increased.
 - D) gone up and then down, finally settling at around 10 percent.

Answer: C

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 8) If the government borrows to purchase goods and services, today's consumption of government goods and services will be paid for by
- A) today's taxpayers.
 - B) government employees.
 - C) future taxpayers.
 - D) today's taxpayers and tomorrow's taxpayers in even shares.

Answer: C

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Other things being equal, what is the effect of deficit spending on credit markets?
- A) Both the demand for credit and the supply of credit will increase.
 - B) Both the demand for credit and the supply of credit will decrease.
 - C) The demand for credit increases while the supply of credit remains constant.
 - D) The supply of credit will increase while the demand for credit remains the same.

Answer: C

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Other things being equal, what is the effect of deficit spending on interest rates?
- A) Interest rates decline.
 - B) Interest rates rise.
 - C) Interest rates hold constant because the demand for credit decreases.
 - D) There is no impact unless the Federal Reserve decides to alter the money supply.

Answer: B

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 11) *Ceteris paribus*, deficit spending results in higher interest rates, which can
- A) accelerate growth in investment spending.
 - B) ultimately have a positive impact on productivity gains and society's standard of living.
 - C) increase the wealth of future generations.
 - D) crowd out private investment.

Answer: D

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Gross public debt is
- A) an excess of government spending over government revenues during a given time period.
 - B) a situation in which the government's spending is exactly equal to the total taxes and other revenues it collects during a given time period.
 - C) the total value of budget deficits plus budget surpluses over the past five years.
 - D) all federal government debt irrespective of who owns it.

Answer: D

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 13) The difference between the gross public debt and the net public debt is
- A) the sum of all previously accumulated government budget deficits and surpluses.
 - B) the sum of all previously issued U.S. government securities that have been purchased by foreign residents.
 - C) all private-sector borrowing from private sources.
 - D) all government interagency borrowing.

Answer: D

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Net public debt is
- A) all federal public debt irrespective of who owns it.
 - B) gross public debt minus all government interagency borrowing.
 - C) all public debt minus all money owed on the federal income tax.
 - D) all public debt plus all government interagency borrowing.

Answer: B

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 15) If no foreign residents owned any of the U.S. public debt, then it would be true that
- A) there would be no distributional consequences associated with the public debt.
 - B) U.S. residents would essentially owe the public debt to themselves.
 - C) there would be no interest payments on the public debt.
 - D) the public debt would naturally disappear over time.

Answer: B

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Gross public debt minus all government interagency borrowing is
- A) government budget deficit.
 - B) net public debt.
 - C) U.S. Treasury bonds.
 - D) an entitlement.

Answer: B

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 17) When the Social Security Administration holds U.S. Treasury Bonds
- A) interagency borrowing has occurred and the government owes itself.
 - B) there is a balanced budget.
 - C) an entitlement has occurred.
 - D) the gross public debt has increased.

Answer: A

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 18) The difference between the gross public debt and the net public debt is that the
- A) gross public debt includes entitlements while the net public debt does not.
 - B) gross public debt is based on budget deficit while the net public debt is not based on budget deficits.
 - C) gross public debt includes government interagency borrowing while the net public debt does not.
 - D) the gross public debt is expressed as a percentage of GDP while the net public debt is not.

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Which of the following is the best statement about how the amount of the net public debt that a typical individual owes to the holders of the debt has varied in the recent past?
- A) The amount has not varied much over time.
 - B) The amount has varied a lot over time.
 - C) The amount has steadily increased over time.
 - D) The amount has steadily decreased over time.

Answer: A

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Some economists believe that financing deficit spending by increasing taxes will lead to a lower level of national consumption and a higher level of national savings than deficit spending. The reason is
- A) people believe that they can consume the government provided goods and have future generations pay the bill.
 - B) that people do not realize that taxes have increased also.
 - C) people will forgo private consumption now as society substitutes government goods for private goods.
 - D) the interest rate on the debt will increase.

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Assume the economy is closed and that it is operating at full employment. Which statement is true when the size of the budget deficit decreases?
- A) The interest rate will decrease, leading to an increase in investment and capital formation.
 - B) Demand and supply of credit will increase.
 - C) A reduction in the growth of productivity, and a reduction in society's standard of living will occur.
 - D) The increased amount of public goods will crowd out privately produced goods.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Some economists believe that deficit spending can impose a burden on future generations. Which of the following does NOT explain the burden?
- A) Investment will be crowded out by an increase in current consumption.
 - B) Deficit spending that is allocated to purchases leads to long-term increases in real GDP.
 - C) Future generations will have a smaller capital stock that will reduce their wealth.
 - D) Future generations will have to be taxed at a higher rate.

Answer: B

Diff: 3

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Which of the following statements is true about the public debt and future generations?
- A) Future generations will always be worse off because they will have to pay off the public debt.
 - B) Increased consumption today will lead to increases in the capital stock in the future.
 - C) Future generations may be better off if the rate of return on the borrowed funds is higher than the interest rate paid to foreign residents.
 - D) The public debt cannot be held by foreign residents therefore we really owe the debt to ourselves.

Answer: C

Diff: 3

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 24) The difference between gross public debt and net public debt is that
- A) net public debt includes interagency borrowing while the gross domestic product debt does not.
 - B) net public debt is expressed in real terms while gross public debt is expressed in nominal terms.
 - C) gross public debt includes interagency borrowing while net public debt does not.
 - D) gross public debt is held by individuals while net public debt is held by the government.

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 25) An increase in the public debt would most likely indicate that
- A) the budget deficit has increased.
 - B) the budget deficit has decreased.
 - C) the trade deficit has decreased.
 - D) national saving has increased.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 26) The share of net public debt owed to foreign residents today is close to
- A) 100 percent.
 - B) 80 percent.
 - C) 50 percent.
 - D) 10 percent.

Answer: C

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Revised

- 27) Media reports often suggest that the increasing public debt is a burden on future generations. What they mean is that
- A) it reduces the current level of investment.
 - B) it makes predicting future unemployment levels unpredictable.
 - C) it causes deflation.
 - D) it reduces both nominal and real interest rates.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

Year	Expenditures	Tax Revenues	GDP
1	400	375	5,000
2	290	330	5,300
3	430	320	5,600
4	470	350	6,000

- 28) Suppose that initially there is no public debt. Using the above table, the public debt over this four year period would have
- A) increased by \$215.
 - B) decreased by \$100.
 - C) increased by \$1,375.
 - D) decreased by \$1,590.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Suppose that initially there is no public debt. Using the above table, what is the public debt as a percentage of GDP in Year 4?

A) 5.8 percent B) 7.8 percent C) 3.6 percent D) 2.0 percent

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Suppose that initially there is no public debt. Using the above table, what is the public debt as a percentage of GDP in Year 3?

A) 1.7 percent B) 2.0 percent C) 7.7 percent D) 5.9 percent

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 31) The gross public debt is the

A) amount of U.S. paper currency and coins in circulation.
B) difference between current government expenditures and tax revenues.
C) ratio of past deficits to past surpluses.
D) total of all accumulated deficits and surpluses.

Answer: D

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 32) If the net public debt expanded last year, then which of the following most likely occurred during the year?

A) The government's budget was balanced.
B) The government experienced a budget surplus.
C) The government experienced a budget deficit.
D) The government's tax collections exceeded its spending.

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 33) One mechanism through which increasing public debt may impact the economy is that the resulting
- A) increased competition for funds increases interest rates and causes a reduction in investment.
 - B) increased competition for funds decreases interest rates and causes an increase in investment.
 - C) decreased competition for funds decreases interest rates and causes a reduction in investment.
 - D) decreased competition for funds decreases interest rates and causes an increase in investment.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 34) If the net public debt declined last year, then which of the following most likely occurred during that year?
- A) The government's budget was balanced.
 - B) The government experienced a budget surplus.
 - C) The government experienced a budget deficit.
 - D) The share of foreign holdings of the government's debt increased.

Answer: B

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Revised

- 35) To evaluate relative changes in the net public debt, we must
- A) look at the absolute amount owed by the government.
 - B) compare it to the nation's real GDP.
 - C) look at the annual percentage change in the public debt.
 - D) compare it to the debts of all developed countries.

Answer: B

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Revised

- 36) Gross public debt is the amount of funds that
- A) U.S. residents owe to foreign residents.
 - B) states owe to the federal government.
 - C) the federal government owes to taxpayers.
 - D) the federal government owes to all holders of U.S. securities.

Answer: D

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

37) Which of the following statements is false?

- A) The federal budget deficit in 2004 was about 4 percent of the GDP.
- B) A budget deficit of \$25 billion in a given year increases the public debt by \$25 billion.
- C) The public debt of \$25 billion is the accumulated debt of all U.S. individuals, firms, and institutions.
- D) During the past five years, the U.S. public debt has been increasing.

Answer: C

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB:

Question Status: Previous Edition

38) Net public debt is equal to

- A) the gross public debt minus current year tax revenue collection.
- B) the gross public debt minus taxes paid by foreign corporations on their profits made in the United States.
- C) the gross public debt plus all governmental interagency borrowing.
- D) the gross public debt minus all governmental interagency borrowing.

Answer: D

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

39) Borrowing to finance the increases in government expenditures

- A) reduces current private investment expenditures.
- B) increases interest rates.
- C) reduces growth in the nation's private capital stock.
- D) all of the above

Answer: D

Diff: 1

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

40) The two ways in which deficit spending can impose a burden on future generations are

- A) by requiring future generations to face higher taxes and to work with a lower accumulated stock of capital goods.
- B) by requiring future generations to face lower government spending and to utilize a smaller stock of human capital.
- C) by substituting private goods for public goods and thereby shifting resources to foreign residents.
- D) by substituting private goods for public goods and thereby benefiting only large businesses.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

41) If the net public debt remains unchanged during a given period, but the gross public debt increases, then which of the following statements must be correct?

- A) Government interagency borrowing must have increased during the period.
- B) Government interagency borrowing must have decreased during the period.
- C) Foreign ownership of U.S. Treasury securities must have risen during the period.
- D) Foreign ownership of U.S. Treasury securities must have fallen during the period.

Answer: A

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

42) Which of the following is the best measure of the total amount that the federal government owes to private owners of U.S. Treasury securities?

- A) Government interagency borrowing
- B) The government budget deficit
- C) The gross public debt
- D) The net public debt

Answer: D

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

43) Which of the following correctly describes a way in which deficit spending can impose a burden on future generations?

- I. Failure to allocate deficit spending to uses that boost future real Gross Domestic Product (GDP) will require taxing future generations at a higher rate to repay the resulting higher public debt.
- II. Government deficits that lead to higher employment and real Gross Domestic Product (GDP) in the future will generate increased income taxes for future governments, which will respond by spending the higher tax revenues, creating higher future government budget deficits.
- III. Other things being equal, deficit spending fuels increased consumption of goods and services by the current generation that crowds out capital investment, thereby leaving future generations with a smaller stock of capital than otherwise would have existed.

- A) I only
- B) II only
- C) I and III only
- D) II and III only

Answer: C

Diff: 3

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Which of the following is true of the portion of the net public debt held by foreign residents?
- A) It will definitely be a benefit to current and future generations of U.S. residents, because foreign residents have shown a willingness to lend to the U.S. government in exchange for rates of return significantly lower than they can receive elsewhere in the world.
 - B) It will definitely be a burden on current and future generations of U.S. residents who will have to pay interest on this portion of the debt, thereby transferring a portion of future U.S. incomes abroad.
 - C) It will be a burden on future generations of U.S. residents only if funds that the U.S. government obtains from borrowing are expended on projects with rates of return lower than the rates of interest that the government pays foreign residents.
 - D) It will be a benefit to future generations of U.S. residents only if funds that the U.S. government obtains from borrowing are expended on projects with rates of return lower than the rates of interest that the government pays foreign residents

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 45) Net public debt is
- A) the excess of annual government spending over annual tax revenues.
 - B) the excess of annual tax revenues over annual government spending.
 - C) the portion of government debt held by private individuals and firms.
 - D) the sum owed by the public to keep the Social Security system afloat.

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 46) To compare the net public debt of various countries, the debt has to be compared to
- A) the country's trade deficit.
 - B) the country's current budget deficit or surplus.
 - C) the country's real GDP.
 - D) the country's national defense expenditure.

Answer: C

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Explain how deficit spending could be a burden to future generations.

Answer: Deficit spending can lead to two negative effects. First, future generations will have higher taxes to pay off the debt. Second, current consumption crowds out investment, and reduces the growth of capital goods leaving future generations with a reduced capital stock.

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

48) Explain how deficit spending can benefit future generations.

Answer: If the rate of return on borrowed funds is higher than the interest to be paid to foreign residents, future generations can be made better off.

Diff: 2

Topic: 14.3 Evaluating the Rising Public Debt

AACSB: Analytic skills

Question Status: Previous Edition

14.4 Federal Budget Deficits in an Open Economy

1) In which decade did the United States begin experiencing large trade deficits?

A) 1960s

B) 1970s

C) 1980s

D) 1990s

Answer: C

Diff: 1

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB:

Question Status: Previous Edition

2) Are federal budget deficits related to trade deficits?

A) Yes. If U.S. consumers buy too many imported goods they don't have money to save and a budget deficit results.

B) No. The budget deficit is entirely a domestic matter while the trade deficit only affects U.S. citizens who travel abroad.

C) Yes. As deficit spending goes up, it is likely government borrowing will, too. Then foreign residents who lend funds to the U.S. government have less to spend on our goods, so U.S. exports will fall.

D) Yes, but only if the quality of U.S. goods and services is deteriorating.

Answer: C

Diff: 2

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB: Dynamics of the global economy

Question Status: Previous Edition

3) Which of the following statements has usually held true about the relationship between the trade deficits and government budget deficits?

A) There is no relationship between trade deficits and budget deficits.

B) There is a positive relationship between trade deficits and budget deficits.

C) There is a negative relationship between trade deficits and budget deficits.

D) A relationship exists only when there is a balanced budget.

Answer: B

Diff: 1

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Historic data indicate that there is usually a _____ relationship between trade deficits and federal government budget deficits.

A) positive B) zero C) negative D) fluctuating

Answer: A

Diff: 1

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB:

Question Status: Revised

- 5) A trade surplus occurs when
- A) the value of imports is greater than the value of exports.
 - B) government spending is less than total tax revenue.
 - C) consumption is greater than disposable income.
 - D) none of the above.

Answer: D

Diff: 1

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) Which of the following is true about how trade deficits and government budget deficits are related?
- A) The trade deficit leads to a reduction in investment that leads to a government budget deficit.
 - B) The trade deficit leads to a decline in imports relative to exports that leads to a government budget deficit.
 - C) The government budget deficit leads to higher interest rates that will lead to a trade deficit.
 - D) The government budget deficit leads to lower interest rates that will lead to a lower trade deficit.

Answer: C

Diff: 2

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) When foreign residents buy U.S. Treasury securities to finance the budget deficit,
- A) we can also anticipate an increase in the trade deficit.
 - B) we can also anticipate a decrease in the trade deficit.
 - C) the trade deficit will not be affected.
 - D) the public debt will be reduced.

Answer: A

Diff: 2

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) Historical evidence seems to indicate that
- A) budget and trade deficits generally move in the same direction.
 - B) budget and trade deficits generally move in the opposite direction.
 - C) there is no consistent relationship between trade and budget deficits.
 - D) trade and budget deficits decrease when the president is a Republican, and increase when the president is a Democrat.

Answer: A

Diff: 2

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB:

Question Status: Revised

- 9) Which of the following is true of the relationship between U.S. trade deficits and federal government budget deficits?
- A) Increases in the budget deficit tend to be associated with increases in the trade deficit.
 - B) Increases in the budget deficit tend to be associated with reductions in the trade deficit.
 - C) Increases in the budget deficit are always associated with increases in the trade deficit.
 - D) Increases in the budget deficit are always associated with reductions in the trade deficit.

Answer: A

Diff: 2

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Which of the following is true of the U.S. trade balance and the federal government budget?
- A) In most years since the 1970s, both have been in surplus.
 - B) In most years since the 1970s, both have been in deficit.
 - C) Both exhibited greater variability before the 1970s than they have since.
 - D) The federal government budget deficit was more variable before the 1970s, but the trade deficit has been more variable since.

Answer: B

Diff: 2

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB:

Question Status: Previous Edition

- 11) Are federal budget deficits related to trade deficits?
- A) Yes. If U.S. consumers buy too many imported goods, they do not have funds to save, and a budget deficit results.
 - B) No. The budget deficit is entirely a domestic matter, while the trade deficit only affects U.S. citizens who travel abroad.
 - C) Yes. Higher deficit spending goes up results in more government borrowing, and foreign residents who lend funds to the U.S. government have fewer resources to spend U.S. export goods.
 - D) Yes, but only if the quality of U.S. goods and services is deteriorating

Answer: C

Diff: 2

Topic: 14.4 Federal Budget Deficits in an Open Economy

AACSB: Analytic skills

Question Status: Previous Edition

14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

- 1) What is the short-run effect of increased deficit spending on an economy experiencing a recessionary gap?

- A) Aggregate demand increases, and the gap closes.
- B) Aggregate supply increases, closing the gap.
- C) Aggregate demand decreases, and the gap widens.
- D) Aggregate demand will increase, creating an inflationary gap.

Answer: A

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 2) In the long run, what effect does a government's deficit spending have on equilibrium real Gross Domestic Product (GDP)?

- A) The government's deficit spending will increase equilibrium real Gross Domestic Product (GDP).
- B) Deficit spending will decrease the nation's equilibrium real Gross Domestic Product (GDP).
- C) Higher government deficits will not raise equilibrium Gross Domestic Product (GDP) above the full-employment level.
- D) Equilibrium real Gross Domestic Product (GDP) will increase beyond the full-employment level and there will also be an inflationary effect.

Answer: C

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 3) One of the long-run effects of higher government budget deficits is

- A) a redistribution of real Gross Domestic Product (GDP) away from government-provided goods and toward more privately provided goods.
- B) an increase in the government's share of the nation's economic activity.
- C) growth in the economy's private sector at the same time the government sector shrinks.
- D) a fall in the equilibrium price level.

Answer: B

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Why is it unlikely that tax increases will be the way to eliminate current U.S. federal budget deficits?
- A) Increasing every worker's taxes by the same amount could eliminate the deficit, but it is likely this action would be viewed as too burdensome for workers with modest incomes.
 - B) The revenues generated by increasing taxes on the rich would only pay for a small portion of the federal budget deficit in any recent year.
 - C) Since World War II, on average when taxes were increased by a dollar, federal government spending increased by that much and more.
 - D) All of the above.

Answer: D

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The largest expenditure component of the federal budget is spending on
- A) the military.
 - B) entitlement programs.
 - C) environmental protection programs.
 - D) foreign aid.

Answer: B

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB:

Question Status: Previous Edition

- 6) Guaranteed benefits under government programs such as Social Security or Medicare are called
- A) discretionary spending.
 - B) controllable expenditures.
 - C) entitlements.
 - D) automatic stabilizers.

Answer: C

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Today, U.S. government spending on entitlements represents _____ of the total federal budget.
- A) about 10 percent
 - B) less than 25 percent
 - C) nearly 60 percent
 - D) nearly 90 percent

Answer: C

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB:

Question Status: Previous Edition

8) Which is the fastest growing component of the federal government budget?

- A) Spending on the military and the war on terrorism
- B) Spending to improve the nation's schools
- C) Spending to improve and expand the nation's infrastructure
- D) Spending on entitlements

Answer: D

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB:

Question Status: Previous Edition

9) In the long run, what effect does a government's deficit spending have on equilibrium real Gross Domestic Product (GDP)?

- A) Government deficit spending will increase equilibrium real Gross Domestic Product (GDP).
- B) Deficit spending will decrease the nation's equilibrium real Gross Domestic Product (GDP).
- C) Higher government deficits will not raise equilibrium Gross Domestic Product (GDP) above the full-employment level.
- D) Higher government deficits will raise equilibrium Gross Domestic Product (GDP) above the full-employment level and also have an inflationary effect.

Answer: C

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

10) In the long run, a higher government deficit does not affect equilibrium real Gross Domestic Product (GDP), so that continuous increases in the government deficit will

- A) lead to greater tax revenues.
- B) reduce the price level.
- C) reduce spending on privately provided goods and services.
- D) increase the unemployment rate.

Answer: C

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Revised

11) In the long run, a higher government budget deficit causes

- A) a decrease in both private spending and equilibrium real GDP.
- B) an increase in both private spending and equilibrium real GDP.
- C) a decrease in private spending while equilibrium real GDP remains unchanged.
- D) no change in private spending but a decrease in equilibrium real GDP.

Answer: C

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: New

- 12) The largest component of U.S. federal spending that contributes to the U.S. government budget deficit is
- A) entitlements.
- B) military spending.
- C) interest expenses.
- D) salaries of government employees.

Answer: A

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 13) When analyzing the effects of the government budget deficit,
- A) no distinction must be made between an economy where full employment exists and one where substantial unemployment exists.
 - B) it is important to examine the effects of the reported capital budget and the reported operating budget separately.
 - C) there should be a comparison of the effect of the deficit to the effects of higher taxes needed to eliminate it.
 - D) the baseline budget should be used since it is the most accurate.

Answer: C

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 14) In the short run, a fiscal policy action that results in a reduction in the size of the budget deficit will cause
- A) an increase in real GDP with stable prices if the economy was below full employment.
 - B) a reduction in real GDP with falling prices if the economy was below or at full employment.
 - C) an inflationary gap if the economy was initially operating at full employment.
 - D) an inflationary gap if the economy was initially operating below full employment.

Answer: B

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Suppose the economy is initially experiencing a short-run recessionary gap. An increase in the size of the budget deficit will
- A) increase the size of the recessionary gap.
 - B) reduce the size of the recessionary gap.
 - C) lead to an increase in prices with no increase in real GDP.
 - D) lead to a decrease in prices with an increase in real GDP.

Answer: B

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Suppose the economy is initially operating at full employment. A reduction in the size of the budget deficit will cause which of the following in the short run?

- A) a recessionary gap.
- B) an increase the price level and a reduction in real GDP.
- C) an increase in the price level with no change in real GDP.
- D) an increase in real GDP and an increase in the price level.

Answer: A

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Suppose the economy is initially operating at full employment. A fiscal policy action that results in an increase in the size of the budget deficit will cause which of the following in the long run?

- A) an increase in real GDP.
- B) have no effect on both the level and composition of real GDP.
- C) a reduction in the price level.
- D) change the composition of real GDP.

Answer: D

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 18) In the long run, higher government budget deficits will

- A) lead to a redistribution of real GDP from privately produced goods and services to government produced goods and services.
- B) lead to a redistribution of real GDP from government produced goods and services to privately produced goods and services.
- C) cause the price level to go down on government goods but not on private goods.
- D) lead to a reduction in the amount of goods and services produced by the government and private sector.

Answer: A

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 19) What is the difference between the short run and the long run when there is full employment and the government engages in deficit spending?

- A) Real GDP will increase in both the short run and the long run.
- B) Real GDP will increase in the long run but not the short run.
- C) Real GDP will increase in the short run but not the long run.
- D) Real GDP will not increase in either the long run or the short run.

Answer: C

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

20) Which of the following has NOT been proposed as a possible economic solution to reducing the government deficit?

- A) Reducing expenditures
- B) Increasing taxes for the rich
- C) Increasing the number of entitlements
- D) Increasing taxes for everyone

Answer: C

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

21) As a possible approach to eliminating the government budget deficit, increasing taxes for everyone would

- A) mean only a small increase in taxes.
- B) lead to an inflationary gap.
- C) transfer more goods and services to the government sector.
- D) lead to a large increase in taxes for every worker.

Answer: D

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

22) As a possible approach to eliminating the government budget deficit, increasing taxes on the rich only would

- A) lead to a significant increase in tax revenues.
- B) not lead to a significant increase in tax revenues.
- C) lead to a greater number of entitlements.
- D) lead to an increase in real GDP.

Answer: B

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

23) An entitlement is

- A) government spending on things like military salaries.
- B) guaranteed benefits under some government programs.
- C) another word for a government budget surplus.
- D) the payments to the private sector in exchange for goods and services.

Answer: B

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Legislated federal government payments that anyone who qualifies can receive are called
- A) controllable expenditures.
 - B) a fiscal stabilizer.
 - C) balanced expenditures.
 - D) entitlements.

Answer: D

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Which of the following is NOT an entitlement?
- A) Medicaid
 - B) Social Security
 - C) Federal government salaries
 - D) Medicare

Answer: C

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Among economists, it is generally believed that
- A) the federal budget deficit will be eliminated within 10 years.
 - B) the public debt will be paid off within 10 years.
 - C) entitlement spending will continue to decline.
 - D) the federal government will find it difficult to cut entitlement programs.

Answer: A

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB:

Question Status: Previous Edition

- 27) Government spending that changes automatically without action by Congress is
- A) a noncontrollable expenditure.
 - B) national defense.
 - C) payments to contractors for routing services performed.
 - D) discretionary payments.

Answer: A

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 28) The fastest-growing part of the federal budget is
- A) national defense.
 - B) payments for services rendered.
 - C) entitlements.
 - D) government salaries.

Answer: C

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB:

Question Status: Previous Edition

29) Suppose the economy is initially experiencing a recessionary gap. A reduction in the size of the budget deficit will cause which of the following in the short run?

- A) a reduction in the size of the recessionary gap and increase in real GDP.
- B) an increase in the size of the recessionary gap and decrease in real GDP.
- C) an increase in inflation and increase in aggregate supply.
- D) an inflationary gap.

Answer: B

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

30) If the economy is experiencing an inflationary gap in the short run, an increase in the budget surplus

- A) will reduce the size of the inflationary gap.
- B) will increase the size of the inflationary gap.
- C) will cause an increase in inflation and increase aggregate supply.
- D) will increase aggregate demand and will increase the price level.

Answer: A

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

31) Suppose the economy is initially operating at full employment. A reduction in the size of the budget deficit will cause which of the following in the long run?

- A) a recessionary gap.
- B) a reduction in real GDP.
- C) an inflationary gap.
- D) none of the above.

Answer: D

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

32) Noncontrollable expenditures are called "noncontrollable" because

- A) they increase at the same rate as the public debt.
- B) they change without congressional action.
- C) only the president can approve these entitlement payments.
- D) the political process determines the size of the payments.

Answer: B

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Politicians have suggested that the budget deficit could be reduced by
- A) increasing taxes and reducing expenditures.
 - B) lowering the interest rates.
 - C) imposing higher tariffs on imported goods.
 - D) forbidding interest payments on government bonds outsourcing.

Answer: A

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Which government program would be considered an "entitlement" program?
- A) national defense
 - B) subsidies for mass transportation
 - C) law enforcement in major U.S. cities
 - D) Social Security

Answer: D

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

- 35) The fastest growing component of the annual federal budgets since 2000 is
- A) the education budget.
 - B) entitlement payments.
 - C) funding for health research.
 - D) funding for NASA.

Answer: B

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB:

Question Status: Previous Edition

- 36) The long-run effect of increasing government budget deficits
- A) is a redistribution of real GDP from privately provided goods to government provided goods.
 - B) is no impact on equilibrium real GDP.
 - C) is to increase of price level.
 - D) all of the above

Answer: D

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

37) Which of the following statements is correct?

- A) Since the mid-1940s, expenditures on national defense have increased considerably as a percentage of total federal government spending.
- B) Since the mid-1940s, expenditures on income security and health programs have increased considerably as a percentage of total federal government spending.
- C) Taken together, expenditures on national defense and on income security and health programs now account for less than half of all federal government spending.
- D) Expenditures on national defense now account for more than twice as much federal government spending as expenditures on income security and health programs.

Answer: B

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Previous Edition

38) By approximately how much would the federal government have to raise each worker's annual taxes to eliminate the current federal budget deficit?

- A) Between \$50 and \$100 per year
- B) Between \$500 and \$1,000 per year
- C) Between \$1,500 and \$2,500 per year
- D) Between \$5,000 and \$7,000 per year

Answer: D

Diff: 1

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Analytic skills

Question Status: Revised

39) What are the macroeconomic consequences of a budget deficit when the economy is operating at full employment? Be sure to discuss the effects in the short-run and in the long-run.

Answer: In the short run, a budget deficit will create an inflationary gap. Real GDP and prices will increase. In the long run, a budget deficit will be inflationary and have no effect on the full employment level of real GDP. The deficit will lead to a redistribution of real GDP with a larger share going to government provided goods and services.

Diff: 2

Topic: 14.5 Growing U.S. Government Deficits: Implications for U.S. Economic Performance

AACSB: Reflective thinking skills

Question Status: Previous Edition