Chapter 15 review

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

____ 1. Every hour, the federal government spends about
a. $250 thousand.
b. $25 million.
c. $250 million.
d. $25 billion.

____ 2. The federal budget is put together
a. every other year.
b. by Congress and the White House.
c. to report to Congress on the preceding year's expenditures.
d. in order to reimburse state governments for costs of federally funded programs.

____ 3. An example of expansionary fiscal policy would be
a. cutting taxes.
b. cutting government spending.
c. cutting production of consumer goods.
d. cutting prices of consumer goods.

____ 4. All of the following are reasons why it is difficult to put balanced fiscal policy into practice EXCEPT
a. the need for discretionary spending.
b. political pressures for reelection.
c. difficulty of predicting future economic performance.
d. difficulty of coordinating the needs of many different agencies.

____ 5. All of the following people are well-known classical economists EXCEPT
a. Adam Smith.
b. David Ricardo.
c. Arthur Laffer.
d. Thomas Malthus.

____ 6. In contrast with classical economics, Keynesian economics
a. reduces the role of government.
b. takes a broader view of the economy.
c. relies more heavily on the laws of supply and demand.
d. more strongly emphasizes the importance of individual businesses to the overall health of the economy.

____ 7. When revenues exceed expenditures,
a. there is a budget surplus.
b. there is a budget deficit.
c. the government must create more money.
d. the government is forced to issue more bonds to raise money.

____ 8. When you buy a United States Savings Bond, you
a. loan money to the government.
b. borrow money from a savings and loan association.
c. donate money for special government projects.
d. pay for your child's college education.

____ 9. Keynesian economics failed to deal successfully with
a. World War II.
b. the Great Depression.
c. high inflation during the 1970s.
d. low unemployment rate during the 1960s.

____ 10. The national debt rose during Ronald Reagan's term as President for all of the following reasons EXCEPT

a. tax cuts.
b. the costs of running a war.
c. increased funding for defense spending.
d. an unexpected economic downturn.

____ 11. The Office of Management and Budget
a. is part of the legislative branch of government.
b. is responsible for deciding how much money each government agency receives in the budget.
c. is a privately funded agency responsible for overseeing the preparation of the federal budget.
d. is the office that has the final power to approve or disapprove of the federal budget proposed by Congress.

____ 12. An example of contractionary fiscal policy would be
a. cutting taxes.
b. decreasing government spending.
c. increasing production of consumer goods.
d. expanding the government's role in regulating private industry.

____ 13. The purpose of expansionary fiscal policy is to
a. increase output.
b. prevent hyperinflation.
c. slow the growth of the GDP.
d. increase the separation between government and private industry.

____ 14. All of the following are reasons why it is difficult to implement balanced fiscal policy EXCEPT
a. the need for discretionary spending.
b. political pressures for reelection.
c. difficulty of predicting future economic performance.
d. difficulty of coordinating the needs of many different agencies.

____ 15. All of the following are characteristics of classical economics EXCEPT
a. a free market economy.
b. the law of supply and demand.
c. the idea of achieving market equilibrium.
d. a significant role for government in the running of the economy.

____ 16. An example of an automatic stabilizer is
a. taxes.
b. inflation.
c. interest rates.
d. U.S. savings bonds.

____ 17. Supporters of supply-side economics believe that
a. government should be used as a tool to increase demand for goods.
b. demand for goods increases when prices rise.
c. taxes have a strong negative influence on economic output.
d. tax cuts have little impact on worker productivity.

____ 18. All of the following are problems associated with high national debt EXCEPT that it
a. reduces funds available for businesses to invest.
b. makes it harder for the government to fund projects.
c. makes investing in treasury bonds, notes, and bills very risky.
d. can slow the growth of the GDP.

____ 19. An accurate statement about achieving a balanced budget would be that
a. in 1995, Congress passed a constitutional amendment that requires a balanced budget.
b. most states require a balanced budget for state spending.
c. by the end of the twentieth century, the federal government had paid off most of its debts

and had achieved a balanced budget.
d. classical economists believe that a balanced budget is not in the best interest of the economy.

____ 20. The federal government's Fiscal Year 2007 begins on
a. January 1, 2006.
b. October 1, 2006.
c. December 31, 2006.
d. January 1, 2007.

____ 21. Congress has just passed several bills outlining the federal budget. What is the next step in the budget process?
a. The Office of Management and Budget will analyze the Congressional budget and chooses to approve or reject it.
b. The federal budget will be sent to the fifty state legislatures for approval or rejection.
c. The President signs the budget into law or vetoes it and sends it back to Congress.
d. The new budget automatically becomes law.

____ 22. What leads directly to the crowding-out-effect?
a. a big federal budget deficit
b. increased government spending
c. a federal budget surplus
d. cuts in federal spending

____ 23. Which of these statements is a fundamental part of Keynesian economics?
a. The federal government should have a balanced budget every year to protect economic growth.
b. The government should reduce taxes to promote economic growth by increasing aggregate supply.
c. The government can use deficit spending to increase aggregate demand and pull the economy out of recession.
d. The economy will only reach equilibrium and prosperity through the self-regulation of the free market.

____ 24. What is one example of an automatic stabilizer?
a. food stamps
b. a new highway project
c. the national debt
d. a balanced budget amendment

____ 25. Which of these statements is a fundamental part of supply-side economics?
a. The federal government should have a balanced budget every year to protect economic growth.
b. The economy will only reach equilibrium and prosperity through the self-regulation of the free market.
c. The government can use deficit spending to increase aggregate demand and pull the economy out of recession.
d. The government should reduce taxes to promote economic growth by increasing aggregate supply.

____ 26. The Laffer curve predicts the effects of changes in the tax rate on
a. unemployment.
b. tax revenues.
c. real GDP.
d. aggregate supply.

____ 27. Which of these is a contractionary fiscal policy?
a. The federal government builds a new medical research center at a prestigious state university.
b. The President and Congress pass a new two-cent-per-gallon gasoline tax.
c. The federal government sends taxpayers up to $300 each in the form of an income tax rebate.
d. The sales tax on clothing is lifted for one week before the school year begins.

____ 28. The President has vetoed several appropriations bills. What is the next step in the budget process?
a. Congress can vote to override the vetoes or pass new appropriations bills that the President

is likely to sign.
b. Congress must pass new appropriations bills for the President to sign.
c. The Congressional Budget Office may intervene to ensure a budget is passed.
d. Federal agencies send requests for money to the Office of Management and Budget.

____ 29. What will lead DIRECTLY to a government "shut down"?
a. Government spending exceeds revenues before the end of the fiscal year.
b. The President vetoes Congress's appropriations bills.
c. Congress and the President are unable to agree on a budget and one branch of government refuses to pass temporary spending measures.
d. Congress fails to override a presidential veto.

____ 30. Why makes increased government spending an effective tool for increasing demand?
a. the Laffer curve
b. political pressures
c. supply-side economics
d. the multiplier effect

____ 31. How did the Great Depression relate to the school of classical economics?
a. The end of the Great Depression in the 1940s confirmed many of the theories of classical economics.
b. Crises like the Great Depression were predicted by Adam Smith.
c. The Great Depression appeared to disprove the classical theory that demand and supply could return to a healthy equilibrium through market forces alone.
d. The issues of the Great Depression had no connection to classical economics.

____ 32. Which statement describes the federal government's fiscal policies in the 1980s?
a. Income tax rates were reduced, but spending increased.
b. Income tax rates and spending were both reduced.
c. Income tax rates were increased and spending was reduced.
d. Income tax rates and spending were both increased.

____ 33. Which of these Presidents increased top marginal income tax rates during his term in office?
a. Franklin D. Roosevelt
b. John F. Kennedy
c. Ronald Reagan
d. George W. Bush

____ 34. Robin buys a newly-issues Treasury bond, Treasury note, and Treasury bill. Which will mature and be repaid by the government LAST?
a. Treasury bond
b. Treasury note
c. Treasury bill
d. either Treasury bond or Treasury bill

Matching

Identifying Key Terms
Match each term with the correct statement below.

a. appropriations bill
b. crowding-out effect
c. federal budget
d. fiscal policy
e. multiplier effect
f. national debt
g. productive capacity
h. Treasury bill
i. Treasury bond
j. Treasury note

____ 35. the maximum output that an economy can sustain over a period of time

____ 36. a written document indicating the amount of money the government expects to receive for a certain year and authorizing the amount of money the government can spend that year

____ 37. the idea that every one dollar change in fiscal policy creates a greater than one dollar change in the national income

____ 38. federal government's use of taxing and spending to keep the economy stable

____ 39. a type of short-term bond that must be repaid within a year or less
____ 40. a type of bond that the issuer may take as long as 30 years to repay
____ 41. when the level of federal borrowing makes it more difficult for private businesses to borrow
____ 42. total amount of money the federal government owes

Identifying Key Terms
Match each term with the correct statement below.

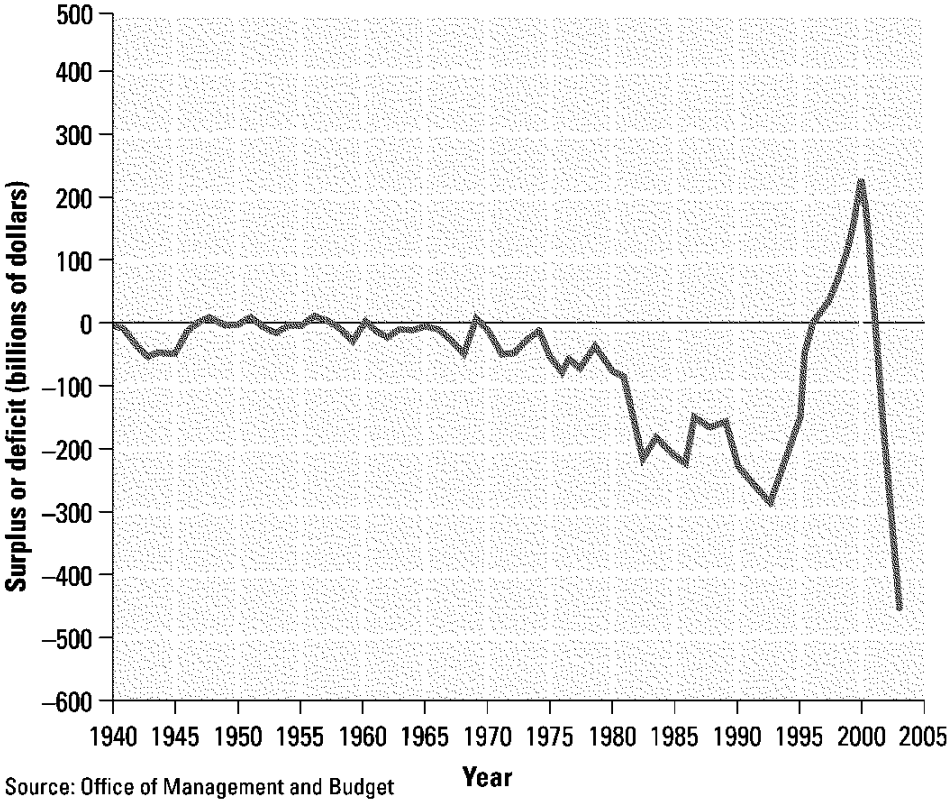
a. appropriations bill	f. national debt
b. crowding-out effect	g. productive capacity
c. federal budget	h. Treasury bill
d. fiscal policy	i. Treasury bond
e. multiplier effect	j. Treasury note

____ 43. a written document indicating the amount of money the government expects to receive for a certain year and authorizing the amount of money the government can spend that year
____ 44. the federal government's use of taxing and spending to keep the economy stable
____ 45. document authorizing specific spending
____ 46. the maximum output that an economy can sustain over a period of time
____ 47. the idea that every one dollar change in fiscal policy creates a greater than one dollar change in the national income
____ 48. total amount of money the federal government owes
____ 49. a type of short-term bond that must be repaid within a year or less
____ 50. a type of bond that must be repaid within two to ten years

Short Answer

Interpreting a Graph

Figure 15.9 Budget Surpluses and Deficits, 1940–2003



Source: Office of Management and Budget

51. According to Figure 15.9, about what year was the budget deficit the highest?
52. According to Figure 15.9, what was true about revenues and expenditures in 1950?
53. According to Figure 15.9, what was the general trend of government revenues and expenditures during the early 1950s?
54. According to Figure 15.9, about what year was the budget surplus about $40 billion?
55. According to Figure 15.9, about what year was the budget deficit nearly $300 billion for the first time in history?
56. According to Figure 15.9, what was true about revenues and expenditures in 1950?
57. According to Figure 15.9, what was the general trend of government revenues and expenditures during the 1970s?
58. Describe the change that took place regarding the budget during the 1990s shown in Figure 15.1.

Essay

Critical Thinking

59. **Synthesizing Information** What office prepares the federal budget? Describe the process it follows.
60. **Making Comparisons** How does supply-side economics differ from Keynesian economics?

61. **Analyzing Information** Explain how government spending can trigger a chain of events that helps to improve the economy.

62. **Making Comparisons** Explain what type of problems Keynesian economics addressed that were not addressed by classical economics.

Chapter 15 review
Answer Section

MULTIPLE CHOICE

1. ANS: C DIF: Medium REF: 387 OBJ: 6.15.1.1
TOP: fiscal policy
2. ANS: B DIF: Medium REF: 387-388 OBJ: 6.15.1.2
TOP: federal budget
3. ANS: A DIF: Medium REF: 389 OBJ: 6.15.1.3
TOP: expansionary fiscal policy
4. ANS: A DIF: Medium REF: 391-392 OBJ: 6.15.1.4
TOP: fiscal policy, balanced budget
5. ANS: C DIF: Medium REF: 395-396 OBJ: 6.15.2.1
TOP: classical economics
6. ANS: B DIF: Medium REF: 396-397 OBJ: 6.15.2.1
TOP: classical economics, keynesian economics
7. ANS: A DIF: Medium REF: 403 OBJ: 6.15.3.1
TOP: budget surplus
8. ANS: A DIF: Medium REF: 404-405 OBJ: 6.15.3.2
TOP: savings bonds
9. ANS: C DIF: Medium REF: 400-401 OBJ: 6.15.2.3
TOP: keynesian economics
10. ANS: B DIF: Medium REF: 401 OBJ: 6.15.3.2
TOP: national debt
11. ANS: B DIF: Medium REF: 388 OBJ: 6.15.1.2
TOP: office of management and budget
12. ANS: B DIF: Medium REF: 389 OBJ: 6.15.1.3
TOP: contractionary fiscal policy
13. ANS: A DIF: Medium REF: 389 OBJ: 6.15.1.3
TOP: expansionary fiscal policy
14. ANS: A DIF: Medium REF: 391-392 OBJ: 6.15.1.4
TOP: fiscal policy, balanced budget
15. ANS: D DIF: Medium REF: 395-396 OBJ: 6.15.2.1
TOP: classical economics
16. ANS: A DIF: Medium REF: 399 OBJ: 6.15.2.1
TOP: automatic stabilizer
17. ANS: C DIF: Medium REF: 399-400 OBJ: 6.15.2.2
TOP: supply-side economics
18. ANS: C DIF: Medium REF: 405 OBJ: 6.15.3.3
TOP: national debt
19. ANS: B DIF: Medium REF: 407 OBJ: 6.15.3.4
TOP: balanced budget
20. ANS: B DIF: Medium REF: 388 OBJ: 6.15.1.2
TOP: fiscal year
21. ANS: C DIF: Medium REF: 388 OBJ: 6.15.1.2
TOP: federal budget
22. ANS: A DIF: Easy REF: 396 OBJ: 6.15.3.3

TOP: crowding-out effect

23. ANS: C DIF: Medium REF: 396 OBJ: 6.15.2.1
TOP: keynesian economics

24. ANS: A DIF: Medium REF: 399 OBJ: 6.15.2.1
TOP: automatic stabilizer

25. ANS: D DIF: Easy REF: 399 OBJ: 6.15.2.2
TOP: supply-side economics

26. ANS: B DIF: Easy REF: 399 OBJ: 6.15.2.2
TOP: Laffer curve

27. ANS: B DIF: Medium REF: 390 OBJ: 6.15.1.3
TOP: contractionary fiscal policy

28. ANS: A DIF: Medium REF: 389 OBJ: 6.15.1.2
TOP: federal budget

29. ANS: B DIF: Hard REF: 389 OBJ: 6.15.1.2
TOP: government shutdown

30. ANS: D DIF: Hard REF: 397 OBJ: 6.15.2.1
TOP: multiplier effect

31. ANS: C DIF: Hard REF: 395 OBJ: 6.15.2.1
TOP: great depression, classical economics

32. ANS: A DIF: Hard REF: 401 OBJ: 6.15.2.3
TOP: fiscal policy

33. ANS: A DIF: Medium REF: 400, 401 OBJ: 6.15.2.3
TOP: income tax

34. ANS: A DIF: Medium REF: 405 OBJ: 6.15.3.1
TOP: treasury bond, treasury note, treasury bill

MATCHING

35. ANS: G DIF: Easy REF: 396 OBJ: 6.15.2.1
TOP: productive capacity

36. ANS: C DIF: Easy REF: 387 OBJ: 6.15.1.2
TOP: federal budget

37. ANS: E DIF: Easy REF: 397 OBJ: 6.15.2.2
TOP: multiplier effect

38. ANS: D DIF: Easy REF: 387 OBJ: 6.15.1.1
TOP: fiscal policy

39. ANS: H DIF: Easy REF: 405 OBJ: 6.15.3.2
TOP: treasury bill

40. ANS: I DIF: Easy REF: 405 OBJ: 6.15.3.2
TOP: treasury bond

41. ANS: B DIF: Easy REF: 406 OBJ: 6.15.3.3
TOP: crowding-out effect

42. ANS: F DIF: Easy REF: 405 OBJ: 6.15.3.2
TOP: national debt

43. ANS: C DIF: Easy REF: 387 OBJ: 6.15.1.2
TOP: federal budget

44. ANS: D DIF: Easy REF: 387 OBJ: 6.15.1.1

TOP: fiscal policy

45. ANS: A DIF: Easy REF: 389 OBJ: 6.15.1.2
TOP: appropriations bill

46. ANS: G DIF: Easy REF: 396 OBJ: 6.15.2.1
TOP: productive capacity

47. ANS: E DIF: Easy REF: 397 OBJ: 6.15.2.1
TOP: multiplier effect

48. ANS: F DIF: Easy REF: 405 OBJ: 6.15.3.2
TOP: national debt

49. ANS: H DIF: Easy REF: 405 OBJ: 6.15.3.1
TOP: treasury bill

50. ANS: J DIF: Easy REF: 405 OBJ: 6.15.3.1
TOP: treasury note

SHORT ANSWER

51. ANS:
2003

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

52. ANS:
They were about equal.

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

53. ANS:
Revenues were about the same as expenditures.

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

54. ANS:
about 1956 and about 1997

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

55. ANS:
about 1992

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

56. ANS:
They were about equal.

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

57. ANS:
Expenditures exceeded revenues.

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

58. ANS:
The deficit reached its highest level and then began to fall, and the decade ended with a short-lived budget surplus.

DIF: Hard REF: 404 OBJ: 6.15.3.1 TOP: budget surplus, budget deficit

ESSAY

59. ANS:
The Office of Management and Budget (OMB) prepares the federal budget. First the OMB meets with each federal agency to review its spending proposal, usually giving them less. Then the OMB works with the President's staff to combine all of the individual agency budgets into a single budget.

DIF: Hard REF: 387-388 OBJ: 6.15.1.2
TOP: federal budget, office of management and budget

60. ANS:
Supply-side economics tries to increase economic growth by increasing aggregate supply, while Keynesian economics uses government to change aggregate demand. Supply-side economics stresses the idea that taxation influences supply, using tax cuts to increase supply and higher tax rates to decrease supply.

DIF: Hard REF: 386-400 OBJ: 6.15.2.1
TOP: supply-side economics, keynesian economics

61. ANS:
If the federal government increases its spending or buys more goods and services, it increases demand, which causes prices to rise. Higher prices encourage suppliers of goods and services to produce more. To do this, they must hire more workers. This leads to lower unemployment and an increase in output.

DIF: Hard REF: 396-399 OBJ: 6.15.1.3 TOP: multiplier effect

62. ANS:
The classical economics model failed to help the United States deal with the Great Depression. According to classical economics, falling prices should have increased demand, which should have led to increased production. However, with less money to spend, demand fell as well. Keynes proposed that the government spend money putting people to work, As people had more money, they would spend it, and this would encourage private production to increase. Then, the government could step back and reduce its spending. The government could also step in to slow down the economy if inflation began to run too high.

DIF: Hard REF: 395-399 OBJ: 6.15.2.1
TOP: keynesian economics, classical economics