Question #1 of 30

Question ID: 1572977

Monetary policy is *most accurately* described as actions that influence economic activity by increasing or decreasing:

A) the supply of money and credit.

B) currency exchange rates.

C) tax rates on income and consumption.

Question #2 of 30

Question ID: 1572992

Arguments for being concerned with the size of a fiscal deficit relative to GDP *least likely* include:

A) a likely need for higher future taxes.

B) higher interest rates due to government borrowing.

C) a high proportion of government debt owed to the country's citizens.

Question #3 of 30

Question ID: 1572999

Which of the following statements about achieving proper timing in fiscal policy is *least accurate*?

A) Improvements in quantitative methods have made the occurrence of recessions or expansions quite predictable.

B) Policy errors are inevitable due to unpredictable events.

C) There is usually a time lag between when a change in policy is needed and when the need is recognized by policy makers.

Question #4 of 30

Question ID: 1572996

The time it takes for a fiscal policy action to affect the economy is *best* described as:

A) impact lag.

B) action lag.

C) recognition lag.

Question #5 of 30

Question ID: 1572994

Robert Necco and Nelson Packard are economists at Economic Research Associates. ERA asks Necco and Packard for their opinions about the effects of fiscal policy on real GDP for an economy currently experiencing a recession. Necco states that real GDP is likely to increase if both government spending and taxes are increased by the same amount. Packard states that if both government spending and taxes are increased by the same amount, there is no expected net effect on real GDP.

Are the statements made by Necco and Packard CORRECT?

	Necco	Packard
A)	Correct	Incorrect
B)	Incorrect	Correct
C)	Incorrect	Incorrect

Question #6 of 30

Question ID: 1572982

Discretionary fiscal policy refers to:

A) buying or selling securities in the open market to influence interest rates.

B) active decisions regarding spending and taxing to affect economic growth.

C) government spending programs that counteract the business cycle without the intervention of policymakers.

Question #7 of 30

Question ID: 1573000

Which of the following statements *best* explains the importance of the timing of changes in discretionary fiscal policy? Changes in discretionary fiscal policy must be timed properly if they are going to:

A) enable the government to control the money supply.

B) exert a stabilizing influence on an economy.

C) help the government achieve a balanced budget.

Question #8 of 30

Question ID: 1572991

The crowding-out effect suggests that:

A) government borrowing will lead to an increase in private savings.

B) as government spending increases, so will incomes and taxes, and the higher taxes will reduce both aggregate demand and output.

C) greater government deficits will drive up interest rates, thereby reducing private investment.

Question #9 of 30

Question ID: 1573002

An example of a contractionary fiscal policy change is a(n):

A) increase in a fiscal surplus.

B) decrease in a fiscal surplus.

C) increase in a fiscal deficit.

Question #10 of 30

Question ID: 1573004

The government budget deficit of Country M is increasing. At the same time, the government budget surplus of Country N is decreasing. Are the fiscal policies of these countries expansionary or contractionary?

A) Both are contractionary.

B) Both are expansionary.

C) One is expansionary and one is contractionary.

Question #11 of 30

Question ID: 1572986

When an economy dips into a recession, automatic stabilizers will tend to alter government spending and taxation so as to:

A) enlarge the budget deficit (or reduce the surplus).

B) reduce the budget deficit (or increase the surplus).

C) reduce interest rates, thus stimulating aggregate demand.

Question #12 of 30

Question ID: 1573003

A government that is implementing a contractionary fiscal policy is *most likely* to:

A) decrease transfer payments to households.

B) increase spending on public works.

C) decrease income tax rates.

Question #13 of 30

Question ID: 1572978

Attempting to influence economic growth and inflation by changing tax rates and government spending is *best* described as:

A) monetary policy.

B) a combination of fiscal and monetary policy.

C) fiscal policy.

Question #14 of 30

Question ID: 1573001

The country of Zurkistan is experiencing both high interest rates and high inflation. The government passes laws that reduce government spending and increase taxes. It takes many months before interest rates fall and inflation is reduced. This is an example of:

A) action lag and automatic stabilizers.

B) recognition lag in discretionary fiscal policy.

C) impact lag in discretionary fiscal policy.

Question #15 of 30

Question ID: 1572988

Arguments for being concerned about the size of a fiscal deficit *least likely* include:

A) a reduction in long-term economic growth.

B) Ricardian equivalence.

C) the crowding-out effect.

Question #16 of 30

Question ID: 1572993

Assuming the federal government maintains a balanced budget, the *most likely* effects of a tax increase on government expenditures and real GDP are:

	Government Expenditures	Real GDP
A)	Decrease	Decrease
B)	Increase	Decrease
C)	Increase	Increase

Question #17 of 30

Question ID: 1572980

When the central bank increases short-term interest rates, its monetary policy is *best* described as:

A) expansionary.

B) accommodative.

C) contractionary.

Question #18 of 30

Question ID: 1572983

Unemployment compensation is an example of:

A) a discretionary fiscal policy stabilizer.

B) an automatic fiscal policy stabilizer.

C) an automatic monetary policy stabilizer.

Question #19 of 30

Question ID: 1572984

Which of the following statements *best* explains how automatic stabilizers work? Even without a change in fiscal policy, automatic stabilizers tend to promote:

A) a budget deficit during a recession but do not promote a budget surplus during an inflationary expansion.

B) a budget surplus during a recession and a budget deficit during an inflationary expansion.

C) a budget deficit during a recession and a budget surplus during an inflationary expansion.

Question #20 of 30

Question ID: 1572997

The time it takes for policy makers to enact a fiscal policy action is *best* described as:

A) action lag.

B) implementation lag.

C) legislative lag.

Question #21 of 30

Question ID: 1572979

A distinction between fiscal policy and monetary policy is that fiscal policy:

A) concerns taxes and government spending, while monetary policy concerns the money supply.

B) is aimed at promoting economic growth, while monetary policy is aimed at promoting price stability.

C) is typically expansionary, while monetary policy is typically contractionary.

Question #22 of 30

Question ID: 1572985

The term "automatic stabilizers" refers to:

A) changes in taxes and expenditure programs legislators automatically enact in response to changes the level of economic activity in order to smooth economic cycles.

B) increases in transfer payments and decreases in tax revenues that result from an economic contraction without new legislation.

C) government expenditures and tax receipts that are required to balance over the course of the business cycle, although they may be out of balance in any single year.

Question #23 of 30

Question ID: 1572998

The time it takes for policy makers to determine that the economy requires a fiscal policy action is *best* described as:

A) action lag.

B) recognition lag.

C) impact lag.

Question #24 of 30

Question ID: 1572981

Promoting economic growth and price stability are the goals of:

A) fiscal policy, but not monetary policy.

B) monetary policy, but not fiscal policy.

C) both fiscal and monetary policy.

Question #25 of 30

Question ID: 1572975

Policies that can be used as tools for redistribution of wealth and income include:

A) both fiscal policy and monetary policy.

B) fiscal policy only.

C) monetary policy only.

Question #26 of 30

Question ID: 1572976

Policies used with the goal of maintaining stable prices and producing economic growth include:

A) both fiscal policy and monetary policy.

B) monetary policy only.

C) fiscal policy only.

Question #27 of 30

Question ID: 1572987

An argument against being concerned with the size of a fiscal deficit is that a deficit can:

A) aid in increasing GDP and employment if the economy is operating at less than potential GDP.

B) lead to higher future taxes that will increase government revenues.

C) cause government borrowing to crowd out private borrowing.

Question #28 of 30

Question ID: 1572989

The crowding-out model implies that a:

A) budget deficit will increase the real interest rate and thereby retard private investment.

B) budget surplus will retard aggregate demand and trigger an economic downturn.

C) budget deficit will stimulate aggregate demand and trigger a multiplier effect which will lead to inflation.

Question #29 of 30

Question ID: 1572995

Assuming the economy currently is experiencing high inflation, an example of appropriate discretionary fiscal policy is:

A) increase the federal funds target rate.

B) reduce government expenditures on major government construction projects.

C) reduce the money supply.

Question #30 of 30

Question ID: 1572990

Arguments against being concerned about the size of a fiscal deficit include:

A) higher future taxes.

B) Ricardian equivalence.

C) the crowding-out effect.