1. Fiscal policy refers to changes in
   A) state and local taxes and purchases that are intended to achieve macroeconomic policy objectives.
   B) federal taxes and purchases that are intended to achieve macroeconomic policy objectives.
   C) federal taxes and purchases that are intended to fund the war on terrorism.
   D) the money supply and interest rates that are intended to achieve macroeconomic policy objectives.

2. Active changes in tax and spending by government intended to smooth out the business cycle are called ________, and changes in taxes and spending that occur passively over the business cycle are called ________.
   A) automatic stabilizers; discretionary fiscal policy
   B) discretionary fiscal policy; automatic stabilizers
   C) automatic stabilizers; monetary policy
   D) discretionary fiscal policy; conscious fiscal policy

3. Automatic stabilizers refer to
   A) the money supply and interest rates that automatically increase or decrease along with the business cycle.
   B) government spending and taxes that automatically increase or decrease along with the business cycle.
   C) changes in the money supply and interest rates that are intended to achieve macroeconomic policy objectives.
   D) changes in federal taxes and purchases that are intended to achieve macroeconomic policy objectives.

4. The increase in the amount that the government collects in taxes when the economy expands and the decrease in the amount that the government collects in taxes when the economy goes into a recession is an example of
   A) automatic stabilizers.
   B) discretionary fiscal policy.
   C) discretionary monetary policy.
   D) automatic monetary policy.
5. The increase in government spending on unemployment insurance payments to workers who lose their jobs during a recession and the decrease in government spending on unemployment insurance payments to workers during an expansion is an example of
   A) automatic stabilizers.
   B) discretionary fiscal policy.
   C) discretionary monetary policy.
   D) automatic monetary policy.

6. Which of the following would not be considered an automatic stabilizer?
   A) legislation increasing funding for job retraining passed during a recession
   B) decreasing unemployment insurance payments due to decreased jobless during an expansion
   C) rising income tax collections due to rising incomes during an expansion
   D) declining food stamp payments due to more persons finding jobs during an expansion

7. The largest and fastest-growing category of federal government expenditures is
   A) grants to state and local governments.
   B) interest on the national debt.
   C) national park spending.
   D) transfer payments.

8. Government transfer payments include which of the following?
   A) interest on the national debt
   B) grants to state and local governments
   C) Social Security and Medicare programs
   D) national defense

9. The largest source of federal government revenue in 2012 was
   A) sales taxes.
   B) corporate income taxes.
   C) individual income taxes.
   D) payroll taxes to fund Social Security and Medicare programs.

10. Since the Social Security system began in 1935, the number of workers per retiree has
    A) stayed roughly the same.
    B) continually risen.
    C) continually declined.
    D) risen and declined with different generations.
11. Which of the following provides health-care coverage to people age 65 and over?
A) Medicaid
B) Medicare
C) Social Security
D) Health-Aid

12. Expansionary fiscal policy involves
A) increasing government purchases or decreasing taxes.
B) increasing taxes or decreasing government purchases.
C) increasing the money supply and decreasing interest rates.
D) decreasing the money supply and increasing interest rates.

13. If the economy is falling below potential real GDP, which of the following would be an appropriate fiscal policy to bring the economy back to long-run aggregate supply? An increase in
A) the money supply and a decrease in interest rates.
B) government purchases.
C) oil prices.
D) taxes.

14. Which of the following is considered contractionary fiscal policy?
A) Congress increases the income tax rate.
B) Congress increases defense spending.
C) Legislation removes a college tuition deduction from federal income taxes.
D) The New Jersey legislature cuts highway spending to balance its budget.

15. Expansionary fiscal policy to prevent real GDP from falling below potential real GDP would cause the inflation rate to be ________ and real GDP to be ________ than otherwise.
A) higher; higher
B) higher; lower
C) lower; higher
D) lower; lower

16. To combat a recession with discretionary fiscal policy, Congress and the president should
A) decrease government spending to balance the budget.
B) decrease taxes to increase consumer disposable income.
C) lower interest rates and increase investment by increasing the money supply.
D) raise taxes on interest and dividends, but not on personal income.
17. Contractionary fiscal policy to prevent real GDP from rising above potential real GDP would cause the inflation rate to be ________ and real GDP to be ________ than otherwise.
A) higher; higher
B) higher; lower
C) lower; higher
D) lower; lower

18. The problem causing most recessions is too little
A) money (currency plus checking accounts).
B) spending.
C) unemployment.
D) taxes.

19. Which of the following would be most likely to induce Congress and the president to conduct expansionary fiscal policy? A significant
A) decrease in investment spending.
B) decrease in oil prices.
C) increase in consumption spending.
D) increase in net exports.

20. Which of the following would be most likely to induce Congress and the president to conduct contractionary fiscal policy? A significant
A) decrease in oil prices.
B) decrease in real GDP.
C) increase in inflation.
D) increase in labor productivity.

<table>
<thead>
<tr>
<th>Year</th>
<th>Potential Real GDP</th>
<th>Real GDP</th>
<th>Price Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$14.0 trillion</td>
<td>$14.0 trillion</td>
<td>150</td>
</tr>
<tr>
<td>2014</td>
<td>14.5 trillion</td>
<td>14.2 trillion</td>
<td>152</td>
</tr>
</tbody>
</table>

21. Refer to the above table. Consider the hypothetical information in the table above for potential real GDP, real GDP and the price level in 2013 and in 2014 if the Congress and the president do not use fiscal policy. If the Congress and the president want to keep real GDP at its potential level in 2014, they should
A) decrease income taxes.
B) decrease government purchases.
C) decrease the money supply.
D) increase the level of interest rates.
22. The multiplier effect refers to the series of
A) autonomous increases in consumption spending that result from an initial increase in induced expenditures.
B) induced increases in consumption spending that result from an initial increase in autonomous expenditures.
C) autonomous increases in investment spending that result from an initial increase in induced expenditures.
D) induced increases in investment spending that result from an initial increase in autonomous expenditures.

23. Which of the following would increase the size of the government purchases multiplier?
A) an increase in the tax rate
B) an increase in the quantity of imports purchased by households from an increase in income
C) a decrease in the amount of consumption spending by households from an increase in income
D) a decrease in the amount saved by households from an increase in income

24. If the government purchases multiplier equals 2, and real GDP is $14 trillion with potential real GDP $14.5 trillion, then government purchases would need to increase by ________ to restore the economy to potential real GDP.
A) $7.25 trillion
B) $1 trillion
C) $500 billion
D) $250 billion

25. If the absolute value of the tax multiplier equals 1.6, real GDP is $13 trillion, and potential real GDP is $13.4 trillion, then taxes would need to be cut by ________ to restore the economy to potential real GDP.
A) $250 billion
B) $400 billion
C) $640 billion
D) None of the above are correct. Taxes should be increased in this case.

26. It is ________ difficult to effectively time fiscal policy than monetary policy because ________.
A) more; fiscal policy can be quickly decided and changed
B) more; fiscal policy takes longer to implement
C) less; monetary policy takes longer to decide and change
D) less; monetary policy takes longer to implement
27. A recession tends to cause the federal budget deficit to ________ because tax revenues ________ and government spending on transfer payments ________.
   A) increase; rise; falls
   B) increase; fall; rises
   C) decrease; rise; falls
   D) decrease; fall; rises

28. An economic expansion tends to cause the federal budget deficit to ________ because tax revenues ________ and government spending on transfer payments ________.
   A) increase; rise; falls
   B) increase; fall; rises
   C) decrease; rise; falls
   D) decrease; fall; rises

29. The cyclically adjusted budget deficit or surplus measures what the deficit or surplus would be if the economy was
   A) in a recession.
   B) in an expansion.
   C) at potential GDP.
   D) at potential tax revenue.

30. The automatic budget surpluses and budget deficits that occur in the federal budget over the business cycle
   A) destabilize the economy.
   B) stabilize the economy.
   C) decrease potential GDP.
   D) increase potential GDP.

Key
5. A   15. A   25. A
7. D   17. D   27. B