

Practice Questions from March 11th

1. The “crowding-out effect” suggests that:
 - (a) decreases in government spending will increase interest rates.
 - (b) decreases in taxes will decrease interest rates.
 - (c) increases in taxes will lead to an appreciation of the domestic currency (relative to the currencies of the country’s major trading partners).
 - (d) increases in government spending will increase interest rates.
2. Suppose that net tax revenues are equal to 15% of RGDP. If the trend level of RGDP is \$100 billion, and government spending is \$10 billion, the cyclically-adjusted budget balance is:
 - (a) \$15 billion.
 - (b) \$10 billion.
 - (c) -\$10 billion.
 - (d) \$5 billion.
3. Refer to the previous question. If there is currently a recessionary gap of \$10 billion, what is the (actual) budget balance?
 - (a) \$3.5 billion.
 - (b) \$6.5 billion.
 - (c) \$1.5 billion.
 - (d) \$0.
4. Suppose that net tax revenues are equal to 20% of RGDP and government spending is \$12 billion. If RGDP is \$50 billion, which of the following policy changes could the government use to balance its budget?
 - (a) Cut its spending by \$4 billion.
 - (b) Increase its spending by \$5 billion.
 - (c) Change its tax policy so that net tax revenues are equal to 24% of RGDP.
 - (d) None of the above; the budget is already balanced.
5. Suppose that net tax revenues are equal to 10% of RGDP and government spending is fixed at \$7 billion per year. RGDP is \$60 billion, \$65 billion, and \$70 billion in years 1, 2, and 3, respectively. After 3 years of this country’s existence, this country’s debt is equal to:
 - (a) \$1.5 billion.
 - (b) \$1 billion.
 - (c) \$0.5 billion.
 - (d) \$0.
6. The “multiplier” effect will be greater:
 - (a) the steeper is the SRAS curve.
 - (b) the greater is the tax rate.
 - (c) the smaller is the savings rate.
 - (d) none of the above.

7. A cyclically-adjusted balanced budget entails:
- (a) a budget deficit at the trend level of RGDP, a balanced budget during expansionary gaps, and a budget surplus during recessionary gaps.
 - (b) a balanced budget at the trend level of RGDP, a budget surplus during expansionary gaps, and a budget deficit during recessionary gaps.
 - (c) a balanced budget at the trend level of RGDP, a budget deficit during expansionary gaps, and a budget surplus during recessionary gaps.
 - (d) a budget surplus at the trend level of RGDP, a budget deficit during expansionary gaps, and a balanced budget during recessionary gaps.
8. All else equal, an increase in RGDP will cause:
- (a) tax revenues to fall, transfers to rise, and net taxes to fall.
 - (b) tax revenues to fall, transfers to fall, and net taxes to rise.
 - (c) tax revenues to rise, transfers to rise, and net taxes to fall.
 - (d) tax revenues to rise, transfers to fall, and net taxes to rise.
9. An “actually balanced” budget is:
- (a) countercyclical because tax revenue reductions associated with expansions will require cuts in government spending.
 - (b) countercyclical because tax revenue reductions associated with recessions will require cuts in government spending.
 - (c) procyclical because tax revenue reductions associated with expansions will require cuts in government spending.
 - (d) procyclical because tax revenue reductions associated with recessions will require cuts in government spending.
10. Suppose that, at the trend level of RGDP, the government faces a budget surplus. We can conclude that:
- (a) there will be a budget surplus when there is a recessionary gap.
 - (b) there will be a budget deficit when there is an expansionary gap.
 - (c) there will be a balanced budget when there is an expansionary gap.
 - (d) none of the above.