MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The purpose of the Employment Act of 1946 was to
   A) set targets for the unemployment rate to be achieved by the president.
   B) set up the Federal Reserve System.
   C) establish an unemployment compensation system.
   D) establish goals for the federal government that would promote maximum employment, purchasing power, and production.

2) The largest source of government revenues is
   A) indirect taxes.
   B) corporate income taxes.
   C) social insurance taxes.
   D) personal income taxes.

3) A balanced budget occurs when government
   A) expenditure exceeds revenue.
   B) revenue is expenditure.
   C) revenue equals expenditure.
   D) revenue exceeds expenditure.

4) Whenever the federal government spends more than it receives in tax revenue, then by definition it
   A) runs a budget surplus.
   B) operates a balanced budget.
   C) increases economic growth.
   D) runs a budget deficit.

5) The sum of accumulated annual federal budget deficits in excess of budget surpluses refers to
   A) the federal government net worth.
   B) the cyclically unbalanced budget.
   C) the trade deficit.
   D) the national debt.

6) A discretionary fiscal policy is a fiscal policy that
   A) requires action by the Congress.
   B) is triggered by the state of the economy.
   C) involves a change in government defense spending.
   D) involves a change in corporate tax rates.

7) An example of a discretionary fiscal policy is when
   A) Congress passes a law that raises personal marginal tax rates.
   B) food stamp payments rise when the economy is in a recession.
   C) tax receipts fall as incomes fall.
   D) unemployment compensation payments rise with unemployment rates.

8) The effects of a change in government purchases are multiplied throughout an economy
   A) because these purchases generate changes in consumption expenditure.
   B) only when there is an increase in purchases.
   C) because taxes are left unchanged.
   D) only when there is a decrease in purchases.
9) The government purchases multiplier is the change in
   A) government purchases divided by the change in equilibrium real GDP.
   B) equilibrium nominal GDP divided by the change in government purchases.
   C) equilibrium real GDP divided by the change in government purchases.
   D) government purchases divided by the change in equilibrium nominal GDP.

10) In an economy with no international sector and no taxes, the government purchases multiplier is
    A) \( \frac{1}{1 - MPC} \).
    B) \(-\frac{MPC}{1 - MPC}\).
    C) \(\frac{1 - MPC}{1 - MPC}\).
    D) \(1 - MPC\).

11) In an economy with no international sector and with lump-sum taxes, if the \(MPC = 0.67\), a $10 billion increase in government purchases increases equilibrium expenditure by
    A) $0.33 billion.
    B) $0.5 billion.
    C) $30 billion.
    D) $20 billion.

12) The lump-sum tax multiplier equals
    A) \(-\frac{1 - MPC}{MPC}\).
    B) \(\frac{MPC}{1 - MPC}\).
    C) \(\frac{1}{1 - MPC}\).
    D) \(-\frac{MPC}{1 - MPC}\).

13) In a country with no international trade, if the \(MPC = 0.75\), the lump-sum tax multiplier is
    A) 4.00.
    B) 3.00.
    C) -0.33.
    D) -3.00.

14) Induced taxes
    A) vary with real GDP.
    B) are independent of real GDP.
    C) are autonomous.
    D) are fixed over time.

15) Induced taxes
    A) increase during recessions and expansions.
    B) decrease during recessions and expansions.
    C) increase during recessions and decrease in expansions.
    D) decrease during recessions and increase during expansions.

16) Entitlement spending
    A) decreases during recessions and expansions.
    B) decreases during recessions and increases during expansions.
    C) increases during recessions and expansions.
    D) increases during recessions and decreases in expansions.

17) The marginal tax rate is
    A) the net amount of taxes paid on average by firms.
    B) the fraction of an additional dollar of real GDP paid in net taxes.
    C) a way in which only economists analyze taxes.
    D) the average amount of taxes paid out of aggregate expenditure.

18) In general, the lower the marginal tax rate, the
    A) flatter the \(AD\) curve.
    B) higher the level of autonomous expenditure.
    C) the larger the multiplier.
    D) the smaller the multiplier.
19) The marginal propensity to import is
   A) the change in real imports divided by the change in real GDP.
   B) the ratio of real GDP to total imports.
   C) total real imports divided by the change in real GDP.
   D) the change in real imports divided by total real GDP.

20) The larger the marginal propensity to import,
   A) the larger are the lump-sum tax and government purchases multipliers.
   B) the smaller are the lump-sum tax and government purchases multipliers.
   C) the larger is the lump-sum tax multiplier and the smaller is the government purchases multiplier.
   D) the smaller is the lump-sum tax multiplier and the larger is the government purchases multiplier.

21) An automatic stabilizer
   A) is triggered by the state of the economy.  B) involves a change in personal tax rates.
   C) requires action by the Congress.  D) involves a change in government purchases.

22) An example of an automatic fiscal policy stabilizer is when
   A) tax revenues decrease as real GDP decreases.
   B) Congress decides to cut government spending.
   C) Congress passes a law that raises tax rates.
   D) the president drafts a bill to reduce defense spending.

23) An expansionary fiscal policy is
   A) an increase in taxes.
   B) a cut in taxes.
   C) a decrease in government purchases.
   D) None of the above is an expansionary fiscal policy.
24) In the above figure, the shift in the $AE$ curve from $AE_1$ to $AE_2$ could be the result of
   A) a decrease in transfer payments.   B) a decrease in government purchases.
   C) a decrease in taxes.   D) a rise in the price level.

25) In the above figure, the shift from $AE_1$ to $AE_2$ could be the result of a _______ trillion increase in government purchases.
   A) $1$   B) $6$   C) $4$   D) $2$

26) An economy has real GDP of $300\text{ billion}$ and potential GDP of $240\text{ billion}$. To move the economy to potential GDP, the government should _______ taxes and/or _______ government purchases.
   A) decrease; decrease   B) increase; increase   C) increase; decrease   D) decrease; increase

27) Suppose that real GDP equals potential GDP, but the government believes that the economy is in a below full-employment equilibrium. As a result, the government increases its purchases of goods and services. In response to the government's expansionary fiscal policy,
   A) aggregate demand will still increase.
   B) a short-run equilibrium above potential GDP will occur.
   C) in the long run, money wages will not rise.
   D) Both answers A and B are correct.
28) In the above figure, if the economy initially is at point $A$ and government purchases increase, in the short run the economy will move to point
   A) $C$ unless money wages adjust immediately, in which case the economy will move to point $B$.
   B) $C$ regardless of what happens to the money wage rate.
   C) $A$, that is, the equilibrium will NOT change.
   D) $B$.

29) In the above figure, if the economy initially is at point $A$ and government purchases increase, in the long run the economy will move to point
   A) $C$ unless money wages adjust immediately, in which case the economy will move to point $B$.
   B) $B$.
   C) $A$, that is, the equilibrium will NOT change.
   D) $C$.

30) In the above figure, points $A$ and $C$ differ because
   A) the money wage rate and prices are higher at point $C$ than they are at point $A$.
   B) investment is larger at point $C$ than it is at point $A$.
   C) the money wage rate and prices are lower at point $C$ than they are at point $A$.
   D) output is greater at point $C$ than at point $A$. 
31) In the above figure, the economy is initially at point $A$. If a tax cut has incentive effects that increase the supply of resources, the tax cut will move the economy to point

A) $B$. 
B) $D$. 
C) $C$. 
D) $A$, that is, there is NO effect from a tax cut.

32) In the above figure, a tax cut that has supply side effects will

A) shift only the SAS curve leftward. 
B) shift only the SAS curve rightward. 
C) shift only the AD curve rightward. 
D) None of the above answers are correct.

33) Which of the following reduces the size of the government purchases multiplier?

A) a decrease in the marginal tax rate 
B) a decrease in the marginal propensity to import 
C) an increase in the marginal propensity to consume 
D) a decrease in the marginal propensity to consume

34) Which of the following policies shifts the AD curve the farthest leftward?

A) a cut in taxes of $10 billion 
B) a rise in taxes of $10 billion 
C) a decrease in government purchases of $10 billion 
D) a decrease in both government purchases and taxes of $10 billion

35) How do higher marginal tax rates affect the size of the government purchases multiplier?

A) The answer depends on the presence of lump-sum taxes in the economy in addition to income taxes. 
B) They increase its size. 
C) They reduce its size. 
D) They have no effect on its size.