Instructions:

This is the on-line Multiple Choice Quiz for Chapter 11. Please do the following:

Step 1: Go to the special codes section on your score sheet

- Write your section number (4) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
- Go to the columns O and P. Enter for this chapter, 1 in the O column, and 1 in the P column. Also fill out the appropriate bubbles below in columns O and P.

Step 2: Enter your university identification number using numbers and corresponding bubbles.

Step 3: Enter your name, using letters and corresponding bubbles.

Step 4: Answer all 35 questions.

Step 5: Check the important dates link on the class home page for the availability and closing dates for the successive on-line multiple choice quizzes.

Step 6: Hand in your score sheets in class, to your TA’s or to myself, in class, or outside my office, Heady Hall 281, no later than the posted closing date and hour (5 p.m.)

We will use the following grading scale:

- A = 35, 34, 33, 32, 31, 30
- B = 29, 28, 27, 26, 25, 24
- C = 23, 22, 21, 20, 19, 18
- D = 17, 16, 15, 14, 13, 12
- F = less than 12

Note: All MC quizzes will be discussed in detail in class prior to the posted Friday 5 p.m. closing date and hour. Bring your printed test and score sheet to that class session for that purpose.

Reminder: do not forget to take the Chapter 11 on line Aplia quiz on time, i.e. by 5 p.m. Fridays.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following is considered a purpose of the federal budget?
I. to help the economy achieve full employment
II. to finance the activities of the federal government
III. to promote sustained economic growth
A) I and III  B) II and III  C) I and II  D) I, II and III

2) Fiscal policy is
A) only the use of federal deficit or surplus to keep the economy at full employment.
B) a deliberate attempt to move the economy to full employment and to achieve sustained economic growth.
C) a deliberate attempt to get the government involved in as much of the economy as possible.
D) a deliberate attempt to finance the activities of the federal government.

3) The Employment Act of 1946 made it the responsibility of the federal government to
A) improve the distribution of income.
B) provide full employment and a stable balance of payments.
C) promote maximum employment.
D) balance its budget because that policy would create the maximum level of employment.

4) The Council of Economic Advisers
A) helps the president make changes in monetary policy.
B) proposes the president's budget each year.
C) helps the president and the public stay informed about the state of the economy.
D) approves fiscal policy changes.

5) The government receives tax revenues from several sources. Rank the following sources from largest to the smallest.
I. corporate income taxes
II. personal income taxes
III. social insurance taxes
A) I, III, II  B) I, II, III  C) II, III, I  D) III, II, I

6) Rank the following federal government expenditures from the largest to the smallest.
I. debt interest
II. transfer payments
III. purchases of goods and services
A) III, I, II  B) II, III, I  C) I, II, III  D) III, II, I

7) Federal government expenditures as a percentage of GDP are currently equal to approximately
A) 10 percent.  B) 50 percent.  C) 66 percent.  D) 20 percent.
8) A budget deficit is the difference between
   A) U.S. imports and U.S. exports.
   B) government tax receipts and government expenditures.
   C) foreign holdings of U.S. assets and U.S. holdings of foreign assets.

9) The sum of accumulated annual federal budget deficits minus surpluses equals
   A) the structural deficit.  B) the trade deficit.
   C) the federal government debt.  D) the federal budget.

10) Discretionary fiscal policy is
    A) the use of taxation but not government spending to pursue macroeconomic goals.
    B) the use of government spending and taxation to pursue macroeconomic goals.
    C) the control of government spending but not taxes.
    D) the control of the money supply as a tool of macroeconomic policy.

11) When the economy is hit by spending fluctuations, the government can try to minimize the effects by
    A) changing government spending on services.  B) changing government spending on goods.
    C) changing taxes.  D) all of the above

12) The government purchases multiplier is defined as
    A) the change in real GDP as a result of a change in government purchases of goods and services.
    B) the change in taxes as a result of a change in government spending.
    C) the change in government purchases due to a change in taxes.
    D) the change in government purchases of goods and services as a result of a change in real GDP.

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

14) In an economy with no international sector and no taxes, if the \( MPC \) equals 0.76, the government purchases multiplier equals
    A) 1.24.  B) 4.16.  C) 1.32.  D) 3.16.

15) Suppose real GDP is \$10 trillion, and the government wants to increase real GDP to \$11 trillion. The marginal
    propensity to consume is 0.8 and there are no imports or taxes. Assuming that prices do not change, which
    change in government spending below will generate the extra \$1 trillion in real GDP?
    A) \$200 billion  B) \$125 billion  C) \$100 billion  D) \$400 billion

16) The \underline{multiplier} equals \underline{multiplier}.
    A) lump-sum tax; \( -MPC/(MPC - 1) \)  B) lump-sum tax; \( -MPC/(1 - MPC) \)
    C) government purchases; \( 1/MPC \)  D) government purchases; \( -MPC/(1 - MPC) \)

17) Suppose real GDP equals \$10 trillion and potential GDP equals \$10.6 trillion. Prices are constant and there are
    no imports. If the \( MPC \) equals 0.75, by how much should the government decrease lump-sum taxes to move
    GDP to potential GDP?
    A) \$300 billion  B) \$200 billion  C) \$600 billion  D) \$900 billion
18) When the economy grows, ________ increase because real GDP ________.
   A) lump-sum taxes; increases   B) lump-sum taxes; decreases
   C) induced taxes; decreases    D) induced taxes; increases

19) Which of the following is true regarding induced taxes?
   I. Induced taxes vary with disposable income.
   II. Induced taxes cause the multiplier effect to be greater than it would be otherwise.
   III. Induced taxes weaken the link between real GDP and disposable income.
   A) II and III                   B) I, II and III
   C) I and III                    D) I and II

20) Suppose that real GDP equals $10 trillion while potential GDP is $11 trillion. There no imports or taxes and
    prices are constant. If the government wants to increase aggregate demand to fill the gap, it should increase
    government spending by ________ if the MPC equals ________.
   A) $200 billion; 0.80           B) $1 trillion; 0.80
   C) $250 billion; 0.75           D) Both answers A and C are correct.

21) The most expansionary fiscal policy would be one that
   A) raises tax rates.
   B) decreases government purchases and lowers taxes.
   C) increases government purchases and lowers taxes.
   D) increases the nation's money supply.

22) The aggregate demand curve is shifted rightward by
   A) a decrease in government purchases.
   B) an increase in tax rates.
   C) an increase in the federal budget surplus.
   D) an increase in government purchases.

23) If the government enacts a contractionary fiscal policy, it might
   A) decrease government purchases.
   B) increase lump-sum taxes.
   C) increase induced taxes.
   D) All of the above answers are correct.

24) Contractionary fiscal policy will
   A) generate an increase in real GDP.
   B) involve cutting taxes.
   C) involve increasing government spending.
   D) lower the price level.
25) In the above figure, suppose the economy is at point A. To move the economy so that it is producing at its potential GDP, the government might increase its purchases

A) so that the aggregate demand curve and the aggregate supply curve both shift so that they both go through point C.

B) so that the aggregate supply curve shifts so that it goes through point D.

C) by $2 trillion.

D) so that the aggregate demand curve shifts so that it goes through point B.

26) In the above figure, suppose the economy is at point A. By the proper use of fiscal policy, the government can

A) shift the LAS curve through point A.

B) get the economy to point B.

C) get the economy to point C.

D) get the economy to point D.
27) In the above figure, which fiscal policy could help move the economy to its long-run equilibrium?
A) increasing transfers  
B) decreasing taxes  
C) decreasing government purchases  
D) Both answers A and B are correct.

28) Once you account for ________, the multiplier effect of an increase in government purchases is ________.
A) price level effects; weakened  
B) the MPC; strengthened  
C) the MPC; weakened  
D) price level effects; strengthened

29) In the ________, the government purchases multiplier is ________.
A) long run; greater than 0  
B) long run; less than 0  
C) short run; greater than 0  
D) short run; less than 0

30) Assuming there are no supply-side effects, when the economy is on its long-run aggregate supply curve and
the government initiates an expansionary fiscal policy, the result is a
A) temporary increase in real GDP and an increase in the price level, followed by a further increase in the price level and no subsequent change in real GDP.
B) permanent increase in real GDP and a permanent increase in the price level.
C) temporary increase in real GDP and an increase in the price level, followed by a reduction of real GDP to its original level and a further increase in the price level.
D) temporary increase in real GDP and a temporary increase in the price level.

31) Which of the following are a limitation of fiscal policy?
I. There is a lag between recognizing that fiscal policy might be needed and when it actually takes effect.
II. It is difficult to know where the economy is in relation to potential GDP.
III. Monetary policy might counter fiscal policy.
A) I only  
B) I and II  
C) I, II and III  
D) I and III
32) Looking at the supply-side effects on aggregate supply shows that a tax increase
   A) decreases real GDP.
   B) weakens the incentive to work.
   C) will increase the amount of capital used because people work less.
   D) Both answers A and B are correct.

33) An increase in taxes shifts the labor supply curve ______ and the ______.
    A) The question errrs because tax rates only affect aggregate demand.
    B) rightward; before-tax wage rate rises
    C) leftward; after-tax wage rate rises
    D) leftward; after-tax wage rate falls

34) Taking account of the supply-side effects of a tax cut means that a tax cut shifts the aggregate supply curve
    ______ and shifts the aggregate demand curve ______.
    A) leftward; leftward
    B) rightward; rightward
    C) leftward; rightward
    D) rightward; leftward

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35) In the above figure, which of the diagrams show a tax cut as large supply-side effects?
    A) Figure A
    B) Figure B
    C) both figures
    D) neither figure