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| 1. Fiscal policy is concerned with \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | government spending and taxation. | |  | b. | government spending and changes in money supply. | |  | c. | money supply and taxation. | |  | d. | government spending, taxation, and money supply. | |  | e. | money supply only. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 2. Automatic stabilizers \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | deliberately manipulate government purchases, transfer payments, and taxes to promote macroeconomic goals. | |  | b. | are revenue and spending programs in the federal budget that automatically adjust with the ups and downs of the economy. | |  | c. | are a method of emergency manipulation of government purchases, transfer payments, and taxes to promote macroeconomic goals. | |  | d. | are revenue and spending programs in the federal budget that never adjust with the ups and downs of the economy. | |  | e. | are monetary policy changes. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 3. Revenue and spending programs in the federal budget that automatically adjust with the ups and downs of the economy are known as \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | discretionary fiscal policy. | |  | b. | automatic stabilizers. | |  | c. | expansionary fiscal policy. | |  | d. | contractionary fiscal policy. | |  | e. | monetary policy. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 4. Deliberate manipulation of government spending and taxes to promote macroeconomic goals is known as \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | discretionary fiscal policy. | |  | b. | automatic stabilizers. | |  | c. | expansionary fiscal policy. | |  | d. | contractionary fiscal policy. | |  | e. | monetary policy. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 5. Discretionary fiscal policy \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | is the deliberate manipulation of government purchases, transfer payments, and taxes to promote macroeconomic goals. | |  | b. | are revenue and spending programs in the federal budget that automatically adjust with the ups and downs of the economy. | |  | c. | are emergency manipulation of government purchases, transfer payments, and taxes to promote macroeconomic goals. | |  | d. | are revenue and spending programs in the federal budget that never adjust with the ups and downs of the economy. | |  | e. | are monetary policy changes. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 6. Which of the following macroeconomic variables would likely be affected by a fiscal policy?   |  |  |  | | --- | --- | --- | |  | a. | the nominal interest rate | |  | b. | the exchange rate | |  | c. | the discount rate | |  | d. | employment | |  | e. | money supply |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 7. Which of the following is not a tool of fiscal policy?   |  |  |  | | --- | --- | --- | |  | a. | money supply | |  | b. | government purchases | |  | c. | taxes | |  | d. | Social Security programs | |  | e. | unemployment benefits |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 8. All of the following are tools of fiscal policy except one. Which is the exception?   |  |  |  | | --- | --- | --- | |  | a. | taxes | |  | b. | transfer payments | |  | c. | interest rates | |  | d. | government purchases of goods | |  | e. | government purchases of services |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 9. Which of the following are components of fiscal policy?   |  |  |  | | --- | --- | --- | |  | a. | transfer payments only | |  | b. | money supply and government purchases | |  | c. | government purchases only | |  | d. | government purchases, transfer payments, and taxes | |  | e. | taxes and money supply |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 10. The distinction between discretionary fiscal policy and the use of automatic stabilizers is that \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | only discretionary fiscal policy can stimulate the economy. | |  | b. | only automatic stabilizers can stimulate the economy. | |  | c. | discretionary fiscal policy, once adopted, is built into the structure of the economy. | |  | d. | automatic stabilizers, once adopted, are built into the structure of the economy. | |  | e. | only discretionary fiscal policy can be used by the federal government. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 11. Discretionary fiscal policy is a policy that \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | is developed in secret. | |  | b. | applies to some states and not all states in an economy. | |  | c. | applies to only some specific industries in an economy. | |  | d. | works automatically without a public announcement or plan. | |  | e. | is an intentional change in taxation or government spending. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 12. Fiscal policy focuses on manipulating \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | aggregate demand to smooth out business fluctuations. | |  | b. | aggregate supply to smooth out business fluctuations. | |  | c. | both aggregate supply and aggregate demand to smooth out business fluctuations. | |  | d. | aggregate demand to stimulate the economy and aggregate supply to contract it. | |  | e. | short-run aggregate supply to stimulate the economy and aggregate demand to contract it. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 13. Fiscal policy \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | uses the federal government's powers of spending and taxation to affect employment, the price level, and GDP. | |  | b. | uses the federal government's control over the money supply and interest rates to affect employment, the price level, and GDP. | |  | c. | can affect employment and prices, but not the level of GDP. | |  | d. | can affect employment and the level of GDP, but not the price level. | |  | e. | is most effective when employed by state governments rather than by the federal government. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 14. All of the following are variables that can be manipulated to affect fiscal policy, except one. Which is the exception?   |  |  |  | | --- | --- | --- | |  | a. | personal income taxes | |  | b. | government expenditures on goods and services | |  | c. | government expenditures on unemployment benefits | |  | d. | the federal funds rate | |  | e. | corporate income taxes |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 15. Which of the following is a component of aggregate demand?   |  |  |  | | --- | --- | --- | |  | a. | transfer payments from the government | |  | b. | taxation by the government | |  | c. | purchases by the government | |  | d. | borrowing by the government | |  | e. | saving by consumers |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 16. Which of the following is true of government purchases?   |  |  |  | | --- | --- | --- | |  | a. | Government purchases are independent of the price level. | |  | b. | Government purchases are independent of the level of real GDP. | |  | c. | Government purchases are independent of consumption. | |  | d. | Government purchases are independent of investment. | |  | e. | Government purchases are independent of the amount saved by households. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 17. Which of the following assumptions is true of government spending and taxes?   |  |  |  | | --- | --- | --- | |  | a. | They do not depend on the level of GDP. | |  | b. | They may be changed only through direct action by Congress. | |  | c. | They change only when the price level changes. | |  | d. | They change only upon executive order of the president of the United States. | |  | e. | They are autonomous at low levels of GDP but not at higher levels of GDP. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 18. Deliberate manipulation of government spending and taxes to promote macroeconomic goals is effected by \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | discretionary fiscal policy. | |  | b. | automatic stabilizers. | |  | c. | expansionary fiscal policy. | |  | d. | contractionary fiscal policy. | |  | e. | monetary policy. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 19. Fiscal policy used to close a recessionary gap is known as \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | discretionary fiscal policy. | |  | b. | an automatic stabilizer. | |  | c. | expansionary fiscal policy. | |  | d. | contractionary fiscal policy. | |  | e. | monetary policy. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 20. Expansionary fiscal policy \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | is a fiscal policy used to close a recessionary gap. | |  | b. | is a revenue and spending program in the federal budget that automatically adjusts with the ups and downs of the economy. | |  | c. | is an emergency manipulation of government purchases, transfer payments, and taxes to promote macroeconomic goals. | |  | d. | is a revenue and spending program in the federal budget that never adjusts with the ups and downs of the economy. | |  | e. | is a monetary policy change. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 21. Which of the following best illustrates the use of discretionary fiscal policy?   |  |  |  | | --- | --- | --- | |  | a. | Congress providing $1 billion in relief aid for hurricane victims | |  | b. | Congress appropriating $400 million to help the needy and the appropriation being financed by a tax on wealth | |  | c. | income tax receipts being smaller because of a decline in real GDP during a recession | |  | d. | the Federal Reserve tightening credit when it receives news of accelerating inflation | |  | e. | Congress passing a bill authorizing $2 billion in additional spending when it receives news of a deepening recession |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 22. If the Naval Research Laboratory fired a chemist and the Environmental Protection Agency hired her at the same salary, the net effect of these events would cause \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | an increase in aggregate demand. | |  | b. | an increase in aggregate supply. | |  | c. | a decrease in aggregate supply. | |  | d. | a decrease in aggregate demand. | |  | e. | no change in aggregate demand. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 23. In which of the following ways does government affect the consumption component of planned aggregate expenditures?   |  |  |  | | --- | --- | --- | |  | a. | through net taxes, which change disposable income | |  | b. | by purchasing goods and services, which increase consumption | |  | c. | by using subsidies to encourage firms to invest | |  | d. | by reducing the interest rate to encourage firms to invest | |  | e. | by producing public goods |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 24. Which of the following statements best explains the effects of transfer payments and taxes on aggregate spending?   |  |  |  | | --- | --- | --- | |  | a. | Transfer payments and taxes affect aggregate spending directly, just as consumption does. | |  | b. | Transfer payments and taxes affect aggregate spending indirectly by first changing disposable income and thereby changing consumption. | |  | c. | Changes in the amount of transfer payments and taxes cancel each other and therefore have no influence on any economic variable. | |  | d. | Transfer payments and taxes affect disposable income but have no effect on consumption. | |  | e. | Transfer payments affect disposable income, but taxes do not. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 25. A decrease in net taxes \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | raises aggregate expenditure by raising disposable income, thereby increasing consumption. | |  | b. | raises aggregate expenditure by raising disposable income, thereby decreasing consumption. | |  | c. | lowers aggregate expenditure by lowering disposable income, thereby decreasing consumption. | |  | d. | lowers aggregate expenditure by lowering disposable income, consumption remaining constant. | |  | e. | has no effect on aggregate expenditure. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 26. Which of the following will not increase when net taxes decrease?   |  |  |  | | --- | --- | --- | |  | a. | saving | |  | b. | disposable income | |  | c. | consumption | |  | d. | government expenditure | |  | e. | GDP |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 27. Which of the following correctly describes the effects of a decrease in net taxes?   |  |  |  | | --- | --- | --- | |  | a. | Disposable income increases, consumption decreases, and saving decreases. | |  | b. | Disposable income increases, consumption increases, and saving increases. | |  | c. | Disposable income decreases, consumption increases, and saving increases. | |  | d. | Disposable income decreases, consumption decreases, and saving decreases. | |  | e. | There is no effect on disposable income, consumption, or saving. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 28. A tax is considered to be independent of \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | investment. | |  | b. | consumption. | |  | c. | government spending. | |  | d. | real GDP. | |  | e. | the price level. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 29. The introduction of a tax by the government will \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | have no effect on real GDP since real GDP comprises consumption expenditure, investment expenditure, and government expenditure. | |  | b. | affect consumption through a change in disposable income. | |  | c. | affect consumption through its effect on investment. | |  | d. | reduce government spending since the government levies the tax. | |  | e. | increase real GDP since it enables the government to decrease spending. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 30. A new tax introduced by the government will \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | decrease disposable income. | |  | b. | increase disposable income. | |  | c. | lead to a reduction in government spending. | |  | d. | lead to an increase in investment. | |  | e. | have no effect on disposable income. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 31. A change in net taxes affects the equilibrium quantity of GDP demanded \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | in the same way a change in government purchases does. | |  | b. | in the same way a change in planned investment does. | |  | c. | in the same way a change in net exports does. | |  | d. | only indirectly, changing the level of disposable income. | |  | e. | in an unpredictable manner. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 32. A decrease in net taxes \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increases GDP as much as an equal decrease in government purchases. | |  | b. | increases GDP less than an equal increase in government purchases. | |  | c. | decreases GDP more than an equal decrease in government purchases. | |  | d. | changes GDP in an unpredictable manner. | |  | e. | has no effect on GDP. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 33. \_\_\_\_\_ when net taxes are reduced.   |  |  |  | | --- | --- | --- | |  | a. | Net exports decrease | |  | b. | Government purchases remain constant | |  | c. | Government purchases rise | |  | d. | Consumption falls | |  | e. | Consumption rises |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 34. Which of the following is most likely to close a recessionary gap in the economy?   |  |  |  | | --- | --- | --- | |  | a. | a decrease in the expenditure on infrastructure | |  | b. | an increase in the income tax rate | |  | c. | an increase in the rate of foreign exchange | |  | d. | a decrease in money supply | |  | e. | an increase in the compensation for government employees |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 35. Which of the following fiscal programs is least likely to increase aggregate demand?   |  |  |  | | --- | --- | --- | |  | a. | defense spending | |  | b. | road construction | |  | c. | grants for scientific research and development | |  | d. | an increase in taxes | |  | e. | government purchases of labor |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 36. When spending by the federal government exceeds net taxes, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the price level tends to fall. | |  | b. | the money supply must fall. | |  | c. | the aggregate demand curve shifts rightward. | |  | d. | aggregate supply moves rightward. | |  | e. | there is a federal budget surplus. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 37. If government purchases increase and net taxes decrease, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the price level will fall. | |  | b. | money supply must rise. | |  | c. | the aggregate demand curve shifts leftward. | |  | d. | aggregate supply shifts rightward. | |  | e. | output and employment will increase. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 38. When net taxes increase and government purchases decrease, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the price level will rise. | |  | b. | money supply must rise. | |  | c. | the aggregate demand curve shifts leftward. | |  | d. | output and employment increase. | |  | e. | the aggregate supply curve shifts leftward. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 39. A federal budget deficit occurs when \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | there is deflation. | |  | b. | federal government purchases exceed net taxes. | |  | c. | there is inflation. | |  | d. | aggregate demand is greater than aggregate supply. | |  | e. | aggregate supply is greater than aggregate demand. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 40. An increase in the federal budget deficit \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | only occurs when there is a deficit in the balance of trade. | |  | b. | creates deflation. | |  | c. | decreases aggregate demand. | |  | d. | decreases the aggregate quantity demanded along a stationary aggregate demand curve. | |  | e. | increases aggregate demand. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 41. The effect of a change in net taxes on the quantity of real GDP demanded equals the resulting shift in the consumption function times \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the marginal propensity to consume. | |  | b. | the marginal propensity to save. | |  | c. | the autonomous net tax multiplier. | |  | d. | the simple spending multiplier. | |  | e. | the marginal tax rate. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 42. Which of the following would increase aggregate demand?   |  |  |  | | --- | --- | --- | |  | a. | a deficit in the government budget | |  | b. | an increase in taxes | |  | c. | an increase in government borrowing | |  | d. | a surplus in the government budget | |  | e. | a decrease in government spending |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 43. All of the following are likely to be effective at eliminating a recessionary gap, except one. Which is the exception?   |  |  |  | | --- | --- | --- | |  | a. | reducing Social Security payments to beneficiaries | |  | b. | reducing personal income taxes | |  | c. | increasing government expenditures on the interstate highway network | |  | d. | increasing farm subsidies | |  | e. | reducing corporate income taxes |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 44. To close a recessionary gap using fiscal policy, the government can \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increase government spending by the size of the gap. | |  | b. | decrease government spending by the size of the gap. | |  | c. | increase government spending by more than the size of the gap. | |  | d. | increase government spending by less than the size of the gap. | |  | e. | decrease government spending by more than the size of the gap. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| Exhibit 11.1 |

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| 45. Refer to Exhibit 11.1, which shows the relationship between the price level and the real GDP. If the government wants the economy to be at full employment, it should \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increase taxes. | |  | b. | decrease transfer payments. | |  | c. | decrease government purchases. | |  | d. | wait for the SRAS curve to shift to the left. | |  | e. | increase its purchases. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 46. Refer to Exhibit 11.1, which shows the relationship between the price level and the real GDP. Which of the following sets of policies would unambiguously move the economy to full employment?   |  |  |  | | --- | --- | --- | |  | a. | increase in government purchases, increase in taxes, and decrease in transfer payments | |  | b. | decrease in government purchases, increase in taxes, and decrease in transfer payments | |  | c. | increase in government purchases, decrease in taxes, and increase in transfer payments | |  | d. | increase in government purchases, increase in taxes, and increase in transfer payments | |  | e. | decrease in government purchases, decrease in taxes, and decrease in transfer payments |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 47. A $0.2 trillion increase in government purchases increases the quantity demanded by $1.0 trillion, the price level remaining constant. This additional spending reflects the \_\_\_\_\_ effect.   |  |  |  | | --- | --- | --- | |  | a. | recessionary | |  | b. | expansionary | |  | c. | simple spending multiplier | |  | d. | income | |  | e. | substitution |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 48. When government purchases increase, the spending multiplier indicates the \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | amount of movement along the aggregate demand curve. | |  | b. | amount of movement along the aggregate supply curve. | |  | c. | size of the rightward shift of the aggregate demand curve at a given price level. | |  | d. | size of the rightward shift of the aggregate supply curve at a given price level. | |  | e. | size of the expansionary gap. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 49. The exact change in equilibrium output due to a shift in the short-run aggregate demand curve depends on \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the amount of tax imposed. | |  | b. | the steepness of the aggregate supply curve. | |  | c. | the steepness of the aggregate demand curve. | |  | d. | the gap between the supply curve and the demand curve. | |  | e. | the consumption pattern in the economy. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 50. Which of the following is an appropriate fiscal policy prescription that addresses the inflation that occurs when the economy is above potential GDP?   |  |  |  | | --- | --- | --- | |  | a. | decreasing taxes to protect consumers from the effects of inflation. | |  | b. | increasing taxes to reduce aggregate demand. | |  | c. | increasing government spending to provide some of the goods that consumers can no longer afford at the higher prices. | |  | d. | decreasing government spending to cause a decrease in the demand for money. | |  | e. | increasing transfer payments to poor people, who are hurt the most by the inflation. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 51. Suppose the government reduces its budget deficit at the same time that energy prices rise sharply. Which of the following is most likely to happen?   |  |  |  | | --- | --- | --- | |  | a. | The price level will rise, since higher energy prices increase the cost of production. | |  | b. | Real GDP will fall since both events will tend to cause an economic contraction. | |  | c. | The price level will fall because the aggregate demand curve has shifted leftward. | |  | d. | Real GDP will rise as less government spending leads to more opportunities for the private sector. | |  | e. | Both the price level and real GDP will fall. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 52. When the government closes an expansionary gap with a change in government spending, the \_\_\_\_\_ in government spending leads to \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | decrease; a decrease in both real GDP and the price level | |  | b. | decrease; a decrease in real GDP and an increase in the price level | |  | c. | decrease; an increase in both real GDP and the price level | |  | d. | decrease; an increase in real GDP and a decrease in the price level | |  | e. | increase; a decrease in both real GDP and the price level |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 53. Fiscal policy used to close an expansionary gap is known as \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | discretionary fiscal policy. | |  | b. | automatic stabilizers. | |  | c. | expansionary fiscal policy. | |  | d. | contractionary fiscal policy. | |  | e. | monetary policy. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 54. Contractionary fiscal policy \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | is the deliberate manipulation of government purchases, transfer payments, and taxes to promote macroeconomic goals. | |  | b. | is a revenue and spending program in the federal budget that automatically adjusts with the ups and downs of the economy. | |  | c. | is an emergency manipulation of government purchases, transfer payments, and taxes to promote macroeconomic goals. | |  | d. | is used to close an expansionary gap. | |  | e. | is a monetary policy change. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 55. If fiscal policy is used to close an expansionary gap, the \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | short-run aggregate supply curve shifts leftward and the price level falls. | |  | b. | short-run aggregate supply curve shifts rightward and the price level increases. | |  | c. | short-run aggregate supply curve shifts rightward and the price level falls. | |  | d. | aggregate demand curve shifts leftward and the price level falls. | |  | e. | aggregate demand curve shifts rightward and the price level falls. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| Exhibit 11.2 |

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| 56. Refer to Exhibit 11.2, which shows the relationship between the price level and real GDP. Suppose the economy is currently at e'. A leftward shift of the short-run aggregate supply curve would return the economy to potential output at \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | point e''. | |  | b. | point e. | |  | c. | point e\*. | |  | d. | a point higher than e''. | |  | e. | a point between e'' and e\*. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 57. Refer to Exhibit 11.2, which shows the relationship between the price level and real GDP. Suppose the economy is currently at e'. If the government implements a contractionary fiscal policy, the economy would move to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | point e\*. | |  | b. | point e'. | |  | c. | point e''. | |  | d. | a point between e\* and e'' on the potential output line. | |  | e. | a point between e\* and e' on the short-run aggregate supply line. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 58. Refer to Exhibit 11.2, which shows the relationship between the price level and real GDP. Suppose the economy is initially at point e. A recessionary gap would be created between \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | Q1 and Q2. | |  | b. | Q2 and Q3. | |  | c. | Q1 and Q3. | |  | d. | AD and AD\*. | |  | e. | AD\* and AD'. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 59. Refer to Exhibit 11.2, which shows the relationship between the price level and real GDP. Which of the following is the long-run equilibrium point?   |  |  |  | | --- | --- | --- | |  | a. | A point between e\* and e'' | |  | b. | e'' | |  | c. | e\* | |  | d. | e' | |  | e. | e |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 60. Refer to Exhibit 11.2, which shows the relationship between the price level and real GDP. Which of the following would be the result of an increase in government purchases?   |  |  |  | | --- | --- | --- | |  | a. | a movement from Q3 to Q2 | |  | b. | a movement from e' to e\* | |  | c. | a movement from e'' to e\* | |  | d. | a movement from Q2 to Q3 | |  | e. | a movement from Q1 to Q3 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 61. Suppose government purchases increase by $100 million in an economy, which leads to total output increasing by $500 million. The size of the multiplier is \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | $400. | |  | b. | 5. | |  | c. | $500. | |  | d. | 0.5. | |  | e. | 50. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 62. Suppose the government expenditure increases by $200 and the simple spending multiplier equals 5. The final increase in output will be \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | $6,000. | |  | b. | $500. | |  | c. | $200. | |  | d. | more than $200. | |  | e. | less than $200. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 63. Suppose an initial increase in government expenditure increases output by $50,000. If the size of the multiplier was 1.0, the size of the initial increase in government expenditure was \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | $25,000. | |  | b. | $20,000. | |  | c. | $12,500. | |  | d. | $50,000. | |  | e. | $0. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 64. Suppose an initial increase in government expenditure increases output by $50,000. If the size of the multiplier is 2.5, the size of the initial increase in government expenditure was \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | $25,000. | |  | b. | $20,000. | |  | c. | $12,500. | |  | d. | $50,000. | |  | e. | $0. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 65. Suppose an initial increase in government expenditure increases output by $50,000. If the economy is producing at its potential, what is the size of the multiplier?   |  |  |  | | --- | --- | --- | |  | a. | $25,000 | |  | b. | $20,000 | |  | c. | $12,500 | |  | d. | $50,000 | |  | e. | $0 |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 66. If the economy is already at its potential output, then the spending multiplier is \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | equal to zero in the long run. | |  | b. | infinite in the long run. | |  | c. | equal to 1 in the long run. | |  | d. | equal to zero in the short run. | |  | e. | equal to 1 in the short run. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 67. The steeper the short-run aggregate supply curve, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the smaller the impact of a shift in aggregate demand on equilibrium output. | |  | b. | the larger the value of the spending multiplier. | |  | c. | the larger the impact of a shift in aggregate demand on equilibrium output. | |  | d. | the smaller the change in government spending needed to achieve the desired change in equilibrium output. | |  | e. | the flatter the aggregate demand curve. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 68. If the economy is already producing at its potential, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the spending multiplier equals 1/(1 − MPC) in the long run. | |  | b. | the spending multiplier is less than 1/(1 − MPC) in the long run. | |  | c. | the spending multiplier is more than 1/(1 − MPC) in the long run. | |  | d. | the spending multiplier equals zero in the long run. | |  | e. | the aggregate demand curve is horizontal. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 69. A change in government purchases has the greatest effect on the economy in the short run when \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the aggregate demand curve is relatively flat. | |  | b. | the aggregate demand curve is relatively steep. | |  | c. | the short-run aggregate supply curve is relatively flat. | |  | d. | the aggregate demand curve is vertical. | |  | e. | the short-run aggregate supply curve is vertical. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 70. The steeper the short-run aggregate supply curve, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the steeper the aggregate demand curve. | |  | b. | the larger the value of the spending multiplier. | |  | c. | the larger the budget surplus. | |  | d. | the larger the impact of a shift in aggregate demand on the equilibrium price level. | |  | e. | the larger the impact of a shift in aggregate demand on the equilibrium output level. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 71. What was used to influence the macroeconomy prior to the 1930s?   |  |  |  | | --- | --- | --- | |  | a. | fiscal policy | |  | b. | monetary policy | |  | c. | socialist policies | |  | d. | automatic stabilizers | |  | e. | *laissez-faire* policies |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 72. Who argued that the economy should be left to itself to close a recessionary gap?   |  |  |  | | --- | --- | --- | |  | a. | John F. Kennedy | |  | b. | John Maynard Keynes | |  | c. | mercantilists | |  | d. | classical economists | |  | e. | socialists |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 73. Which of the following is true about classical economists?   |  |  |  | | --- | --- | --- | |  | a. | They argued that the sources of depressions and high unemployment lay within the market system. | |  | b. | They advocated *laissez-faire* policies to promote economic growth. | |  | c. | They believed the economy would naturally tend toward unemployment. | |  | d. | They believed prices and wages were rigid. | |  | e. | They encouraged government intervention in markets. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 74. Which of the following best describes the concept of *laissez-faire*?   |  |  |  | | --- | --- | --- | |  | a. | Government should not intervene in the economy. | |  | b. | Government should actively intervene in the economy whenever it judges the action to be beneficial. | |  | c. | Government should intervene in the economy only to promote short-term economic stability. | |  | d. | Government should intervene in the economy only to maximize long-term growth rates. | |  | e. | Government should intervene in the economy only when the economy is not at full employment or there is substantial inflation. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 75. \_\_\_\_\_ is contrary to a *laissez-faire* economic system.   |  |  |  | | --- | --- | --- | |  | a. | Active government intervention in all economic decisions | |  | b. | Reliance on prices to adjust to changing market conditions | |  | c. | The theory put forward by classical economics | |  | d. | The theory introduced by neoclassical economics | |  | e. | The market acting as an invisible hand |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 76. According to classical economists, government intervention is \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | necessary to maintain a stable price level in the long run. | |  | b. | necessary to maintain a stable price level in the short run. | |  | c. | necessary to maintain full employment in the long run. | |  | d. | necessary to maintain full employment in the short run. | |  | e. | not necessary to maintain full employment. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 77. According to classical economists, market oriented economies could \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | never experience high unemployment. | |  | b. | experience high unemployment from time to time. | |  | c. | normalize toward potential GDP with discretionary fiscal policy. | |  | d. | normalize toward potential GDP with discretionary monetary policy. | |  | e. | never experience potential GDP. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 78. Classical economists believed that if saving were greater than investment, the interest rate would \_\_\_\_\_, causing saving to \_\_\_\_\_ and investment to \_\_\_\_\_ until the two were equal.   |  |  |  | | --- | --- | --- | |  | a. | rise; decrease; increase | |  | b. | fall; decrease; increase | |  | c. | fall; increase; decrease | |  | d. | rise; increase; decrease | |  | e. | fall; increase; increase |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 79. Classical economists believed that if investment were greater than saving, the interest rate would \_\_\_\_\_, causing saving to \_\_\_\_\_ and investment to \_\_\_\_\_ until the two were equal.   |  |  |  | | --- | --- | --- | |  | a. | rise; decrease; increase | |  | b. | fall; decrease; increase | |  | c. | fall; increase; decrease | |  | d. | rise; increase; decrease | |  | e. | fall; increase; increase |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 80. Which of the following did classical economists believe caused depressions and high unemployment?   |  |  |  | | --- | --- | --- | |  | a. | sticky product prices | |  | b. | tax increases | |  | c. | business expectations | |  | d. | sticky wages | |  | e. | sticky interest rates |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 81. Which of the following had the greatest impact in pulling the U.S. economy out of the Great Depression?   |  |  |  | | --- | --- | --- | |  | a. | the economy's natural tendency to contract toward potential output | |  | b. | the federal government's aggressive policy of tax cuts | |  | c. | the federal government's aggressive policy of monetary stimuli | |  | d. | a precipitous drop in aggregate demand | |  | e. | increased spending during World War II |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 82. One lesson of the Great Depression was that potential GDP could \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | be too low to ensure full employment if the population was growing. | |  | b. | be too low to ensure full employment in a capitalist economy. | |  | c. | be too low to ensure full employment in a market economy. | |  | d. | fall short of full-employment GDP. | |  | e. | exceed equilibrium GDP. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 83. The goal of fiscal policy after the Great Depression was to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | balance the federal budget. | |  | b. | manipulate aggregate demand and supply to fight unemployment. | |  | c. | influence aggregate demand. | |  | d. | influence aggregate supply. | |  | e. | push the aggregate demand and supply curves to the right. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 84. Keynes thought that one macroeconomic problem is that an economy \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | can tend toward an equilibrium level of output that is below the potential level. | |  | b. | will move back to its potential after a business cycle on its own. | |  | c. | always operates at the potential and business cycles are created by government intervention. | |  | d. | can be pushed below the equilibrium level of output by fiscal policy. | |  | e. | can be pushed away from the potential if prices and wages are flexible. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 85. The passage of the Employment Act of 1946 assigned \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the federal government the responsibility for promoting full employment and price stability. | |  | b. | the federal government the responsibility for promoting free markets to achieve economic prosperity. | |  | c. | the federal government the responsibility for setting a minimum wage for all agricultural workers. | |  | d. | state governments the responsibility for setting a minimum wage for all industrial workers. | |  | e. | state governments the responsibility for promoting full employment and price stability. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 86. An automatic stabilizer \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increases inflationary pressure during expansions. | |  | b. | increases the drop in disposable income during recessions and increases the jump in disposable income during expansions. | |  | c. | reduces the drop in disposable income during recessions and reduces the jump in disposable income during expansions. | |  | d. | increases tax revenue relative to government spending throughout the business cycle. | |  | e. | decreases tax revenue relative to government spending throughout the business cycle. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 87. During economic contractions, transfer payments such as welfare benefits \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | automatically increase, reducing income further. | |  | b. | automatically increase, reducing the impact of the contraction on disposable income. | |  | c. | automatically decrease because tax revenues fall and welfare benefits are no longer affordable. | |  | d. | are decreased as a discretionary move on the part of Congress to stimulate expansion. | |  | e. | are increased as a discretionary move on the part of Congress to cushion recipients against the negative effects of economic contraction. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 88. Which of the following is an automatic stabilizer?   |  |  |  | | --- | --- | --- | |  | a. | unemployment insurance | |  | b. | government spending | |  | c. | net taxes | |  | d. | the interest rate | |  | e. | the minimum wage set by the government |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 89. The effect of automatic stabilizers on the business cycle is to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | make upswings larger and downswings smaller. | |  | b. | make upswings smaller and downswings larger. | |  | c. | make both upswings and downswings smaller. | |  | d. | eliminate fiscal drag. | |  | e. | make both upswings and downswings larger. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 90. Which of the following is an example of an automatic stabilizer?   |  |  |  | | --- | --- | --- | |  | a. | a decrease in tax rates by Congress in times of unemployment | |  | b. | a decrease in tax rates by Congress in times of inflation | |  | c. | an increase in government defense spending during war | |  | d. | an increase in unemployment compensation during recession | |  | e. | a decrease in welfare programs during inflation |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 91. The U.S. federal income tax is progressive, which means that \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | tax receipts grow at the same rate that income does. | |  | b. | tax receipts grow at the same rate that government spending does. | |  | c. | middle-income individuals pay more in taxes than either high-income or low-income individuals. | |  | d. | the tax rate decreases with increases in income. | |  | e. | high-income individuals are taxed at a higher rate than low-income individuals. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 92. Because the income tax structure is progressive, the amount of taxes paid is a \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | constant fraction of income throughout the business cycle. | |  | b. | larger fraction of income in expansions than in contractions. | |  | c. | smaller fraction of income in expansions than in contractions. | |  | d. | decreasing function of income in both expansions and contractions. | |  | e. | constant amount at all levels of output and income. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 93. During a recession, unemployment insurance ensures that \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the disposable income of those who are unemployed will increase above the usual level. | |  | b. | disposable income does not fall as much as the decrease in GDP. | |  | c. | disposable income increases as GDP falls. | |  | d. | the marginal propensity to consume increases. | |  | e. | the marginal propensity to consume decreases. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 94. The Golden Age of fiscal policy was during \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the 1920s. | |  | b. | World War II. | |  | c. | the Eisenhower years. | |  | d. | the 1960s. | |  | e. | the Reagan administration years. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 95. The tax cut of 1964 (proposed by President Kennedy) \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | was the last time fiscal policy was used. | |  | b. | was the greatest failure as a demand-management tool. | |  | c. | actually increased investment, consumption, and employment. | |  | d. | shifted the aggregate demand curve leftward. | |  | e. | was the first time the focus moved away from managing aggregate demand to focusing exclusively on aggregate supply. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 96. During the 1970s, demand-management policy \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | continued to be highly successful in curing the economy's economic problems. | |  | b. | was found to be highly unsuitable in periods of stagflation such as the decade of the 1970s. | |  | c. | was so unsuccessful that economists advised a return to the pre–World War II philosophy of fiscal policy. | |  | d. | was unsuccessful because automatic stabilizers no longer influenced the economy. | |  | e. | was unsuitable because it affected aggregate supply more than aggregate demand. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 97. The objective of a demand-management policy is to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increase aggregate demand to smooth economic fluctuations. | |  | b. | decrease aggregate demand to smooth economic fluctuations. | |  | c. | increase or decrease aggregate demand to smooth economic fluctuations. | |  | d. | increase or decrease aggregate supply to smooth economic fluctuations. | |  | e. | increase or decrease aggregate demand to make economic fluctuations more volatile. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 98. Which of the following best describes stagflation?   |  |  |  | | --- | --- | --- | |  | a. | rising unemployment together with economic growth | |  | b. | deflation coupled with a decline in money supply | |  | c. | deficits coupled with rising unemployment | |  | d. | rising unemployment and high inflation rates | |  | e. | inflation coupled with balance of trade deficits |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 99. In the 1970s, one of the causes of stagflation was \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | rising unemployment together with economic growth. | |  | b. | deflation coupled with a decline in money supply. | |  | c. | crop failures that shifted the aggregate supply curve left. | |  | d. | deficits coupled with rising unemployment. | |  | e. | inflation coupled with balance of trade deficits. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 100. In the 1970s, one of the causes of stagflation was \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | rising unemployment together with economic growth. | |  | b. | deflation coupled with a decline in money supply. | |  | c. | higher oil prices that shifted the aggregate supply curve left. | |  | d. | deficits coupled with rising unemployment. | |  | e. | inflation coupled with balance of trade deficits. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 101. In the 1970s, one of the causes of stagflation was \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | adverse supply shocks that shifted the aggregate supply curve left. | |  | b. | adverse supply shocks that shifted the aggregate supply curve right. | |  | c. | beneficial supply shocks that shifted the aggregate supply curve left. | |  | d. | beneficial supply shocks that shifted the aggregate demand curve right. | |  | e. | coordination failure. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 102. Fiscal policy is likely to fail to correct stagflation in an economy because \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | it affects both the aggregate demand and supply, but only aggregate supply needs to be changed. | |  | b. | it affects both the aggregate demand and supply, but only aggregate demand needs to be changed. | |  | c. | it affects aggregate demand only, but aggregate supply also needs to changed. | |  | d. | it affects aggregate supply only, but only aggregate demand needs to be changed. | |  | e. | it affects either aggregate demand or aggregate supply, but both need to be changed simultaneously. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 103. Which of the following was a successful application of fiscal policy in the United States?   |  |  |  | | --- | --- | --- | |  | a. | Roosevelt's strategy in combating the Great Depression | |  | b. | the tax cut of 1964 | |  | c. | the temporary tax surcharge of 1968 | |  | d. | the battle against stagflation during the 1970s | |  | e. | the large tax cut of 1981 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 104. How did the tax cut of 1964 affect the inflation rate?   |  |  |  | | --- | --- | --- | |  | a. | The inflation rate decreased to under 5 percent. | |  | b. | The inflation rate decreased to under 2 percent. | |  | c. | The inflation rate increased to over 5 percent. | |  | d. | The inflation rate increased to over 8 percent. | |  | e. | The inflation rate was unchanged. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 105. Which of the following is true of the Golden Age of fiscal policy of the 1960s?   |  |  |  | | --- | --- | --- | |  | a. | Fiscal policy was used to prevent output from expanding in 1964. | |  | b. | Lyndon B. Johnson cut income tax rates to reduce inflationary pressures in the economy. | |  | c. | A tax cut was introduced to increase savings and unemployment. | |  | d. | A tax cut increased disposable income and consumption. | |  | e. | The unemployment rate rose by 5 percent for the first time in seven years. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 106. Which of the following is not a weakness of fiscal policy as a tool of economic stabilization?   |  |  |  | | --- | --- | --- | |  | a. | It is ineffective in dealing with stagflation. | |  | b. | Its correct implementation depends on an accurate estimate of potential output. | |  | c. | It is subject to lags. | |  | d. | It affects only aggregate demand but does not have any impact on aggregate supply. | |  | e. | Households may not respond to changes they perceive as permanent. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 107. Economists and policy makers questioned the effectiveness of discretionary fiscal policy during the 1970s for all the following reasons except \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the difficulty of estimating the natural rate of unemployment. | |  | b. | the time lags involved in implementing fiscal policy. | |  | c. | the existence of possible feedback effects of fiscal policy on aggregate supply. | |  | d. | the distinction between current and permanent income. | |  | e. | the possible feedback effects of fiscal policy on aggregate demand. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 108. The rate of unemployment that occurs when the economy is producing its potential GDP \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | is called the natural rate of unemployment. | |  | b. | is equal to zero. | |  | c. | is thought to be approximately 10%. | |  | d. | can be kept at zero through fiscal policy. | |  | e. | is equal to the rate of stagflation in most years. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 109. Which of the following is a difference between the theories of John Maynard Keynes and the classical economists?   |  |  |  | | --- | --- | --- | |  | a. | Unlike Keynesian economists, classical economists believed that unemployment was a serious long-term problem. | |  | b. | Unlike Keynesian economists, classical economists advocated that the economy was always in equilibrium. | |  | c. | Unlike Keynesian economists, classical economists believed that the economy would always settle at full employment. | |  | d. | Unlike Keynesian economists, classical economists did not believe that the economy was always in equilibrium. | |  | e. | Unlike Keynesian economists, classical economists believed a glut created an unemployment problem for the economy. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 110. The natural rate of unemployment is \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | equal to seasonal unemployment. | |  | b. | usually equal to 3 percent. | |  | c. | the unemployment rate when none of the work force is unemployed for more than six weeks. | |  | d. | the unemployment rate at which the economy is producing its potential GDP. | |  | e. | defined by the government. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 111. If policy makers estimate the natural rate of unemployment incorrectly, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | their policies will cause deflation in the long run. | |  | b. | their policies will cause even more unemployment in the long run. | |  | c. | the economy will stay below its potential GDP in the long run. | |  | d. | the economy will tend toward the level of unemployment the policy makers believe is correct. | |  | e. | the policies that appear to be successful in the short run will lead to inflation in the long run. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 112. If policy makers think the natural rate of unemployment is lower than it really is, then their policies designed to move the economy to the estimated natural rate, if continued over the long run, will \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | cause continuing inflation. | |  | b. | shift the long-run aggregate supply curve to the right. | |  | c. | shift the supply curve of labor to the right. | |  | d. | lead to a lower price level. | |  | e. | keep the economy below its potential GDP level. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 113. If fiscal policy makers increase aggregate demand in an attempt to decrease the unemployment rate below the natural rate of unemployment, then \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the potential GDP will decrease. | |  | b. | the potential GDP will increase. | |  | c. | the only lasting impact of the policy is a higher price level. | |  | d. | the only lasting impact of the policy is higher real GDP. | |  | e. | the only lasting impact of the policy is lower real GDP. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 114. Given the desire of politicians to get reelected, they might try in the short run to use \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | a contractionary monetary policy. | |  | b. | an expansionary fiscal policy. | |  | c. | an expansionary monetary policy. | |  | d. | tax increases on high-income households. | |  | e. | automatic stabilizers to control demand. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 115. Political business cycles result from \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | a contractionary monetary policy. | |  | b. | an expansionary fiscal policy. | |  | c. | an expansionary monetary policy. | |  | d. | tax increases on high-income households. | |  | e. | automatic stabilizers to control demand. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 116. Economic fluctuations that occur when discretionary policy is manipulated for political gain are known as \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | political business cycles. | |  | b. | fiscal policies. | |  | c. | monetary policies. | |  | d. | tax increases on high-income households. | |  | e. | automatic stabilizers to control demand. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 117. During an election year, the federal government would most likely increase \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | tax rates. | |  | b. | interest rates. | |  | c. | the discount rate charged to commercial banks. | |  | d. | the minimum reserve requirement of commercial banks. | |  | e. | government purchases of goods and services. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 118. Political business cycles result \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | from the economic fluctuations that occur when discretionary policy is manipulated for political gain. | |  | b. | from the recessionary gap that occurs when output falls short of the economy’s potential. | |  | c. | from the expansionary gap that occurs when output exceeds the economy’s potential. | |  | d. | when the spending multiplier is manipulated for political gain. | |  | e. | from the economic fluctuations that occur when automatic stabilizers are manipulated for political gain. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 119. Lags in the approval and implementation of fiscal policy \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | weaken fiscal policy as a tool of economic stabilization. | |  | b. | increase the effectiveness of fiscal policy as a tool of economic stabilization. | |  | c. | help legislators better assess what policies are most appropriate to adopt. | |  | d. | make fiscal policy more responsive to the current economic environment. | |  | e. | cause fiscal policy to be more effective at changing the level of real GDP than changing the price level only in the long run. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 120. A temporary tax cut is not likely to be effective in stimulating aggregate demand if \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the tax cut is large. | |  | b. | the MPC is relatively high. | |  | c. | the economy experiences a contractionary gap. | |  | d. | the short-run aggregate supply curve is relatively flat. | |  | e. | people base consumption decisions on the level of their permanent income. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 121. Permanent income \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | is the income a person expects on average over the long term. | |  | b. | is the income a person expects on average over the short term. | |  | c. | is discretionary income. | |  | d. | is the income that is spent on durable goods. | |  | e. | is the income that is spent on nondurable goods. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 122. If people base their spending decisions more on permanent income than current income, then \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | consumption spending will be more responsive to a temporary change in income than a change in permanent income. | |  | b. | shifts in aggregate supply will be less predictable than if spending was based on current income. | |  | c. | consumption spending will fluctuate more widely than if such spending was determined by current income. | |  | d. | shifts in short-run aggregate supply will be more predictable than if spending was based on current income. | |  | e. | attempts to fine-tune the economy with temporary tax rate adjustments will be less effective. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 123. If people base their spending decisions more on current income than on permanent income, then \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | consumption spending will be more responsive to a temporary change in income than a change in permanent income. | |  | b. | shifts in aggregate supply will be less predictable than if spending was based on current income. | |  | c. | consumption spending will fluctuate more widely than if such spending was determined by current income. | |  | d. | shifts in short-run aggregate supply will be more predictable than if spending was based on current income. | |  | e. | attempts to fine-tune the economy with temporary tax rate adjustments will be more effective. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 124. People will be likely to spend a higher percentage of any additional income when \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | they believe that the increase is permanent. | |  | b. | they believe that the increase is temporary. | |  | c. | the increase is large. | |  | d. | the increase is small. | |  | e. | interest rates on savings accounts are rising. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 125. People will be likely to spend a smaller percentage of any additional income when \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | they believe that the increase is permanent. | |  | b. | they believe that the increase is temporary. | |  | c. | the increase is large. | |  | d. | the increase is small. | |  | e. | interest rates on savings accounts are rising. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 126. What impact do tax rebates have?   |  |  |  | | --- | --- | --- | |  | a. | increased consumption | |  | b. | decreased consumption | |  | c. | increased investment | |  | d. | decreased investment | |  | e. | They have little impact on consumption. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 127. After a substantial tax rebate program in early 2008, surveys showed that \_\_\_\_\_ of households spent their rebate check.   |  |  |  | | --- | --- | --- | |  | a. | 5 percent | |  | b. | 10 percent | |  | c. | 15 percent | |  | d. | 20 percent | |  | e. | 25 percent |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 128. After a substantial tax rebate program in early 2008, surveys showed that most households \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | spent the tax rebate. | |  | b. | saved the tax rebate or paid down debt. | |  | c. | spent the tax rebate and took on more debt. | |  | d. | looked on the tax rebate as permanent income. | |  | e. | looked on the tax rebate as permanent income only if was large. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 129. Which of the following is not a weakness of fiscal policy?   |  |  |  | | --- | --- | --- | |  | a. | The implementation of fiscal policy is difficult. | |  | b. | Time lags in fiscal policy are long and variable. | |  | c. | Fiscal policy works only during periods of stagflation. | |  | d. | Fiscal policy often affects only current income, but many economic decisions are made on the basis of permanent income. | |  | e. | Fiscal policy might have undesirable long-term effects on short-run aggregate supply. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 130. Higher unemployment benefits funded by higher taxes on earnings would \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | decrease the aggregate supply in an economy. | |  | b. | increase the supply of labor in an economy. | |  | c. | increase the price level in an economy. | |  | d. | decrease the aggregate demand in an economy. | |  | e. | increase the opportunity cost of leisure. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 131. Suppose the government increases unemployment benefits, which are paid for with higher taxes on earnings. If the marginal propensity to consume is the same for both the beneficiaries of the unemployment benefits and the workers paying taxes, \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | GDP will first increase and then fall. | |  | b. | there will be no change in real GDP. | |  | c. | real GDP will increase substantially. | |  | d. | real GDP will fall substantially. | |  | e. | GDP will first fall and then increase. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 132. Suppose the federal government increases the unemployment benefits financed by higher income taxes. In this case, which of the following is likely to occur?   |  |  |  | | --- | --- | --- | |  | a. | an increase in the equilibrium real GDP | |  | b. | a redistribution of disposable income from the employed to the unemployed | |  | c. | an increase in the interest rate | |  | d. | an increase in the discount rate charged by the Central Bank | |  | e. | an increase in the income of the rich and a decrease in the income of the poor |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 133. Suppose the federal government increases the unemployment benefits financed by higher income taxes. In this case, which of the following is likely to occur?   |  |  |  | | --- | --- | --- | |  | a. | The equilibrium real GDP will increase. | |  | b. | Higher unemployment benefits will reduce the opportunity cost of not working. | |  | c. | The interest rate will increase. | |  | d. | The discount rate charged by the Central Bank will increase. | |  | e. | The income of the rich will increase and the income of the poor would decrease. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 134. Suppose the federal government increases the unemployment benefits financed by higher income taxes. In this case, which of the following is likely to occur?   |  |  |  | | --- | --- | --- | |  | a. | The equilibrium real GDP will increase. | |  | b. | Higher tax rates will reduce the opportunity cost of leisure. | |  | c. | The interest rate will increase. | |  | d. | The discount rate charged by the Central Bank will increase. | |  | e. | The income of the rich will increase and the income of the poor will decrease. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 135. Suppose the federal government increases the unemployment benefits financed by higher income taxes. In this case, which of the following is likely to occur?   |  |  |  | | --- | --- | --- | |  | a. | The supply of labor will decrease as a result of higher unemployment benefits. | |  | b. | The supply of labor will increase as a result of higher unemployment benefits. | |  | c. | Aggregate supply will increase. | |  | d. | Aggregate demand will increase. | |  | e. | Potential GDP will increase. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 136. Fiscal policy under the Reagan administration was intended to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | stimulate the economy by decreasing taxes in order to increase consumption. | |  | b. | increase tax revenues by increasing the tax rate. | |  | c. | balance the budget by increasing defense spending and increasing taxes. | |  | d. | stimulate the economy by decreasing taxes in order to increase aggregate supply. | |  | e. | stimulate the economy by increasing government spending in order to increase aggregate supply. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 137. Fiscal policy under the Reagan administration resulted in \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | higher budget deficits, which increased aggregate demand. | |  | b. | lower budget deficits, which decreased aggregate demand. | |  | c. | higher budget deficits, which decreased aggregate supply. | |  | d. | lower budget deficits, which stimulated aggregate supply. | |  | e. | increased government spending, which increased aggregate supply. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 138. Supply-side economics emphasized government policies to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | restrict aggregate spending and boost aggregate supply. | |  | b. | increase minimum wage to improve labor productivity. | |  | c. | stimulate real GDP by improving incentives to work. | |  | d. | lower interest rates to boost saving. | |  | e. | increase government tax revenues in order to increase government purchases. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 139. Large federal budget deficits \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | can best be reduced by automatic stabilizers. | |  | b. | make it difficult to use discretionary fiscal policy. | |  | c. | in the mid-to-late 1980s were the result of a severe recession. | |  | d. | constitute only about 1 percent of GDP. | |  | e. | have little to do with the growth of the federal debt. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 140. Large federal budget deficits of the 1980s and 1990s \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increased the use of discretionary fiscal policy as a tool for economic stabilization. | |  | b. | reduced the use of discretionary fiscal policy as a tool for economic stabilization. | |  | c. | increased the use of monetary policy as a tool for economic stabilization. | |  | d. | decreased the use of monetary policy as a tool for economic stabilization. | |  | e. | had little to do with the growth of the federal debt. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 141. Which of the following measures did President Bush adopt in 2001 to get the economy moving again?   |  |  |  | | --- | --- | --- | |  | a. | a hike in the wages of workers | |  | b. | a ten-year tax cut | |  | c. | an increase in taxes on high-income households | |  | d. | liquidation of money supply | |  | e. | Aa decrease in government spending |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 142. Which of the following factors did not contribute to the federal budget surpluses in the 1990s?   |  |  |  | | --- | --- | --- | |  | a. | higher taxes on the rich | |  | b. | more federal government spending discipline | |  | c. | market globalization | |  | d. | slower consumer spending | |  | e. | rising business optimism based on technological innovation |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 143. Which of the following groups did Clinton target after his stimulus package failed in 1993?   |  |  |  | | --- | --- | --- | |  | a. | high-income households | |  | b. | low-income households | |  | c. | foreign investors | |  | d. | only industrial workers | |  | e. | households with the lowest MPC |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 144. The top 10 percent of earners pay about \_\_\_\_\_ of federal income taxes collected.   |  |  |  | | --- | --- | --- | |  | a. | 70 percent | |  | b. | 60 percent | |  | c. | 50 percent | |  | d. | 40 percent | |  | e. | 30 percent |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 145. During 1998–2001, as a result of increased taxes and reduced federal spending, the federal surplus \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increased. | |  | b. | decreased. | |  | c. | turned into a deficit. | |  | d. | remained constant. | |  | e. | was halved. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 146. The federal surplus grew from \_\_\_\_\_ in 1998 to \_\_\_\_\_ in 2000.   |  |  |  | | --- | --- | --- | |  | a. | $25 billion; $75 billion | |  | b. | $50 billion; $150 billion | |  | c. | $69 billion; $236 billion | |  | d. | $77 billion; $280 billion | |  | e. | $100 billion; $300 billion |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 147. The effectiveness of any stimulus program depends on \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the nature of the tax only. | |  | b. | the size of the tax and spending multipliers. | |  | c. | the nature of the tax and tax multipliers. | |  | d. | the income group targeted. | |  | e. | the marginal propensity to consume only. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 148. The 10-year tax cut signed by President George W. Bush in 2001 aimed to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | stimulate the aggregate demand in the economy. | |  | b. | remove the supply bottlenecks in the economy. | |  | c. | close an expansionary gap through a contractionary fiscal policy. | |  | d. | ensure free trade flows across the world. | |  | e. | provide higher unemployment benefits to the residents of the economy. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 149. What caused the U.S. economy to enter a recession in 2007?   |  |  |  | | --- | --- | --- | |  | a. | higher budget deficits, which increased aggregate demand | |  | b. | lower budget deficits, which decreased aggregate demand | |  | c. | declining home prices and rising foreclosure rates | |  | d. | rising home prices and rising foreclosure rates | |  | e. | rising home prices and falling foreclosure rates |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 150. What happened to Lehman Brothers in September 2008?   |  |  |  | | --- | --- | --- | |  | a. | The firm was bailed out by the U.S. government. | |  | b. | The firm announced the largest takeover in U.S. history. | |  | c. | The firm announced the largest merger in U.S. history. | |  | d. | The firm filed for bankruptcy, which was the smallest bankruptcy in U.S. history. | |  | e. | The firm filed for bankruptcy, which was the largest bankruptcy in U.S. history. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 151. What effect did the financial crisis have on credit markets around the world?   |  |  |  | | --- | --- | --- | |  | a. | It did not affect the U.S. credit markets. | |  | b. | It did not affect the global markets. | |  | c. | It made credit markets more liquid. | |  | d. | It froze credit markets. | |  | e. | The crises only affected the stock market, not the credit market. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 152. What did TARP, passed in October 2008, aim to do?   |  |  |  | | --- | --- | --- | |  | a. | unfreeze financial flows | |  | b. | freeze financial flows | |  | c. | decrease liquidity | |  | d. | increase the discount rate | |  | e. | lower taxes |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 153. What did TARP, passed in October 2008, achieve?   |  |  |  | | --- | --- | --- | |  | a. | It increase in the equilibrium real GDP. | |  | b. | It calmed credit markets, but the economy and the stock market continued to worsen. | |  | c. | It calmed credit markets and the economy, but the stock market continued to worsen. | |  | d. | It calmed credit markets, but the economy and the stock market continued to worsen. | |  | e. | It normalized credit markets, the economy, and the stock market. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 154. The effectiveness of any stimulus program depends on \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | the size of the tax cuts. | |  | b. | the size of the tax increases. | |  | c. | the size of the tax and spending multipliers. | |  | d. | the size of the budget deficit. | |  | e. | the size of the budget surplus. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 155. The American Recovery and Reinvestment Act was financed by \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | decreasing the federal budget surplus spending by decreasing interest on borrowings. | |  | b. | increasing the federal budget deficit spending by increasing borrowings. | |  | c. | increasing aggregate supply. | |  | d. | Increasing aggregate demand. | |  | e. | Increasing potential GDP. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 156. The American Recovery and Reinvestment Act, signed by President Obama in 2009, was intended to \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | increase tax revenues by increasing the tax rate. | |  | b. | balance the budget by increasing defense spending and increasing taxes. | |  | c. | stimulate the economy by increasing government spending in order to increase aggregate supply. | |  | d. | stimulate the economy by decreasing taxes in order to increase aggregate supply. | |  | e. | stimulate aggregate demand through tax benefits and spending programs. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 157. Between 2010 and 2014, GDP growth \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | was weak, averaging 2.1 percent per year. | |  | b. | was strong, averaging 2.1 percent per year. | |  | c. | continued falling at a rate of 4.6 percent per year. | |  | d. | continued climbing at a rate of 4.6 percent per year. | |  | e. | neither increased nor decreased. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 158. What do advocates of the American Recovery and Reinvestment Act argue?   |  |  |  | | --- | --- | --- | |  | a. | that the strong recovery was evidence of a strong economy and that the fiscal stimulus was necessary | |  | b. | that the strong recovery was evidence of a strong economy and that the fiscal stimulus was unnecessary | |  | c. | that the weak recovery was evidence of a weak economy and that the fiscal stimulus was necessary | |  | d. | that the weak recovery was evidence of a weak economy and that the fiscal stimulus was unnecessary | |  | e. | that it’s essential to increase government tax revenues in order to increase government purchases |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 159. Economists believe that the fiscal stimulus of 2009 was \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | very effective because the large deficits and growing debt created an uncertain business climate. | |  | b. | very effective because the small deficits and shrinking debt created a positive business climate. | |  | c. | not very effective because the large deficits and growing debt created an uncertain business climate. | |  | d. | not very effective because the small deficits and shrinking debt created a positive business climate. | |  | e. | unrelated to federal debt or the business climate. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 160. Economists believe that, among other reasons, the fiscal stimulus of 2009 \_\_\_\_\_   |  |  |  | | --- | --- | --- | |  | a. | was very effective, because the government spending multiplier was greater than 1.0. | |  | b. | was very effective, because the government spending multiplier was less than 1.0. | |  | c. | was not very effective, because the government spending multiplier was greater than 1.0. | |  | d. | was not very effective, because the government spending multiplier was less than 1.0. | |  | e. | had little to do with the growth of the federal debt. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 161. How much did the federal debt grow between 2008 and 2014?   |  |  |  | | --- | --- | --- | |  | a. | $3.5 trillion | |  | b. | $5.3 trillion | |  | c. | $6.7 trillion | |  | d. | $7.6 trillion | |  | e. | $10.0 trillion |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 162. The only way the government can affect aggregate demand is through changes in its own purchasing.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 163. An increase in government purchases must always be accompanied by an increase in autonomous net taxes to boost aggregate demand.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 164. Discretionary fiscal policy works by shifting the aggregate demand curve.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 165. Discretionary fiscal policy works by shifting the short-run aggregate supply curve.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 166. Most government purchases are made at the federal level and not at the state level.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 167. A $100 billion increase in government purchases will have the same effect on real GDP as a $100 billion decrease in net taxes.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 168. The combined effect of changes in government purchases and net taxes can be determined by adding their individual effects.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 169. Equal increases in government purchases and in net taxes have equal but opposite effects on the level of real GDP demanded.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 170. A decrease in net taxes during a recession increases aggregate demand and helps the economy return to its potential output level.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 171. Either an increase in autonomous net taxes or a decrease in government purchases can close an expansionary gap.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 172. A decrease in government purchases can close an expansionary gap by shifting the aggregate demand curve.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 173. A change in government spending can close an expansionary gap by shifting the short-run aggregate supply curve.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 174. Expansionary and contractionary gaps are automatically eliminated by shifts in aggregate demand.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 175. One disadvantage of discretionary fiscal policy is that it can return the economy to its potential level of output, but at the cost of increasing the price level.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 176. The simple spending multiplier understates the amount by which output changes.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 177. At a level of output equal to the economy’s potential, the simple spending multiplier in the long run equals one.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 178. Classical economists believed that the economy automatically moves toward equilibrium at full employment.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 179. According to Keynesian theory, the natural forces in the economy may not quickly move the economy toward potential real GDP.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 180. Keynes believed that the economy does not automatically move toward an equilibrium at full employment.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 181. The unemployment problem becomes more severe if prices are sticky downward.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 182. Military spending is a good example of an automatic stabilizer.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 183. Government transfer payments are a good example of an automatic stabilizer.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 184. Unemployment insurance is an example of a discretionary fiscal policy.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 185. Because of automatic stabilizers, disposable income varies proportionately less than real GDP during periods of economic fluctuations.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 186. The existence of stagflation in the 1970s undermined the credibility of demand-management policies.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 187. The natural rate of unemployment is that rate at which the economy achieves its potential real GDP.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 188. One of the difficulties in using discretionary fiscal policy effectively is that the legislative decision-making process is sometimes very long and drawn out.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 189. One drawback of fiscal policy is the time it takes to enact the legislation necessary to activate it.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 190. There is substantial evidence that people base their consumption decisions more on their current income than on the average income they expect to receive over a long period of time.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 191. The one-time tax cuts used by the Bush administration to stimulate the economy in 2008 proved to be very successful.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 192. Growing capital spending and privatization were two of the factors that led the U.S. economy to experience a strong recovery in 1994.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 193. It has been estimated that the marginal propensity to consume out of tax rebate money is less than one-third.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 194. The government’s $168 billion plan to stimulate the softening economy in 2008 failed partly because the tax cuts were temporary.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 195. The supply-side effect of higher tax rates would include a fall in the economy’s potential GDP.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 196. Recent studies on the effectiveness of fiscal policy tend to suggest that increases in government spending are more effective than tax cuts in stimulating real GDP.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 197. Recent studies on the effectiveness of fiscal policy tend to suggest that the government spending multiplier is less than 1.0.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 198. The American Recovery and Reinvestment Act passed in February 2009 was the largest measure of discretionary fiscal policy in U.S. history.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 199. At the onset of the Great Depression, U.S. federal outlays were only about \_\_\_\_\_ relative to GDP.   |  |  |  | | --- | --- | --- | |  | a. | 3 percent | |  | b. | 5 percent | |  | c. | 10 percent | |  | d. | 17 percent | |  | e. | 22 percent |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 200. How many years of contraction were there during the Great Depression?   |  |  |  | | --- | --- | --- | |  | a. | 3 | |  | b. | 4 | |  | c. | 5 | |  | d. | 6 | |  | e. | 7 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 201. During the Great Depression unemployment reached \_\_\_\_\_ and investment plunged \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | 10 percent; 80 percent | |  | b. | 80 percent; 10 percent | |  | c. | 25 percent; 80 percent | |  | d. | 80 percent; 25 percent | |  | e. | 50 percent; 50 percent |  |  |  | | --- | --- | | *ANSWER:* | c | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 202. How did the tax cut of 1964 affect the unemployment rate?   |  |  |  | | --- | --- | --- | |  | a. | The unemployment rate decreased to under 5 percent. | |  | b. | The unemployment rate decreased to under 2 percent. | |  | c. | The unemployment rate increased to over 5 percent. | |  | d. | The unemployment rate increased to over 8 percent. | |  | e. | The unemployment rate was unchanged. |  |  |  | | --- | --- | | *ANSWER:* | a | |