Questions and Answers

Chapter3

Q1: MCQ

Aggregate Demand

1) The aggregate demand curve shows
A) total expenditures at different levels of national income.
B) the quantity of real GDP demanded at different price levels.
C) that real income is directly (positively) related to the price level.
D) All of the above answers are correct.
Answer: B

2) The *AD* curve shows the sum of
A) the price level, employment, and real GDP.
B) consumption expenditure, investment, and real GDP.
C) consumption expenditure, investment, government expenditures on goods and services, and net exports.
D) consumption expenditure, investment, the price level, and real GDP.
Answer: C

3) The aggregate demand curve
A) has a negative slope.
B) has a positive slope.
C) is vertical.
D) is horizontal.
Answer: A

4) Aggregate demand is the relationship between the quantity of real GDP demanded and the ________.
A) price level
B) money wage rate
C) real wage rate
D) nominal GDP demanded
Answer: A

5) Moving along the aggregate demand curve, a decrease in the quantity of real GDP demanded is a result of
A) an increase in the price level.
B) a decrease in the price level.
C) an increase in income.
D) a decrease in income.
Answer: A

6) Other things constant, the economy's aggregate demand curve shows that
A) as the price level falls, real GDP decreases.
B) any change in the price level shifts the aggregate demand curve.
C) the quantity of real GDP demanded decreases when the price level rises.
D) the quantity of real GDP demanded and the price level are not related.
Answer: C

7) The aggregate demand curve shows the ________ relationship between the price level and ________.
A) positive; the quantity of real GDP demanded
B) negative; aggregate labor demanded

C) positive; aggregate labor demand
D) negative; the quantity of real GDP demanded
Answer: D

8) The aggregate demand curve shows that, if other factors are held constant, the higher the price level, the
A) greater the quantity of real GDP demanded.
B) smaller the quantity of real GDP demanded.
C) larger consumption expenditure.
D) None of the above answers is correct.
Answer: B

9) The aggregate demand curve shows that, if other factors are held constant, a
A) higher price level results in a decrease in the quantity of real GDP demanded.
B) higher price level results in an increase in the quantity of real GDP demanded.
C) higher price level results in a lower interest rate.
D) lower price level results in inflationary conditions.
Answer: A

10) The quantity of real GDP demanded equals $12.2 trillion when the price level is 90. If the price level rises to 95, the quantity of real GDP demanded equals
A) less than $12.2 trillion.
B) $12.2 trillion.
C) more than $12.2 trillion.
D) more information is needed to determine if the quantity of real GDP demanded increases, decreases, or does not change.
Answer: A

11) Which of the following changes while moving along the aggregate demand curve?
A) future incomes of households
B) the price level
C) the amount of money in the economy
D) future profits from investment projects
Answer: B

12) The *AD* curve slopes
A) downward due to the wealth and price effects.
B) downward due to the wealth and substitution effects.
C) upward due to the price and substitution effects.
D) upward due to the wealth and substitution effects.
Answer: B

13) Your real wealth is measured as the
A) amount of assets you have in dollar terms.
B) amount of money you have.
C) amount of goods and services your wealth will buy.
D) amount of goods you have divided by the price level.
Answer: C

14) If you are have $1,000 of money in the bank and the price level rises 5 percent, your
A) money is worth more in terms of what it can purchase.
B) money is worth less in terms of what it can purchase.
C) money is worth the same in terms of what it can purchase.
D) purchasing power has risen.
Answer: B

15) According to the wealth effect, if real wealth decreases then people
A) decrease their consumption expenditure.
B) increase their consumption expenditure.
C) do not respond if their nominal wealth does not change.
D) decrease their consumption expenditure only if their nominal wealth also decreases.

Answer: A

16) If you have $1,000 in wealth and the price level increases 20 percent, then
A) the $1,000 will buy fewer goods and services.
B) the $1,000 dollars will buy 20 percent more goods and services.
C) the real value of the $1,000 increases.
D) you will be able to buy fewer goods, but the real value of those goods will increase.
Answer: A

17) If you have $5,000 in wealth and the price level decreases 20 percent, then
A) the $5,000 will buy fewer goods and services.
B) the $5,000 will buy more goods and services.
C) the real value of the $5,000 decreases.
D) the real value of the $5,000 remains constant.
Answer: B

18) One reason that the aggregate demand curve has a negative slope is because
A) people buy fewer goods and save more when the price level rises because their real wealth decreases.
B) firms produce more when the price rises.
C) people earn more money when output rises.
D) The premise of the question is wrong because the aggregate demand curve has a positive slope.
Answer: A

19) The intertemporal substitution effect refers to substitution of
A) goods for services.
B) goods and services for less expensive goods and services.
C) goods and services today for goods and services in the future.
D) goods and services produced domestically for goods and services produced in another country.
Answer: C

20) According to the intertemporal substitution effect, when the price level rises and other things remain the same
A) the interest rate falls.
B) the interest rate rises.
C) the quantity of money increases.
D) government taxes rise.
Answer: B

21) According to the intertemporal substitution effect, a fall in the price level will
A) decrease the real value of wealth, which increases the quantity of real GDP demanded.
B) cause the interest rate to fall so that investment increases and the quantity of real GDP demanded increases.
C) increase net exports, which causes the quantity of real GDP demanded to increase.
D) increase the real value of wealth, which raises the interest rate so that the quantity of real GDP demanded decreases.
Answer: B

22) According to the intertemporal substitution effect, when the price level increases, the interest rate
A) rises and the quantity of real GDP demanded increases.
B) rises and the quantity of real GDP demanded decreases.
C) falls and the quantity of real GDP demanded decreases.
D) is not affected.
Answer: B

23) According to the intertemporal substitution effect, a higher price level
A) decreases the quantity of real GDP demanded.
B) lowers the costs of building new plants and equipment.
C) increases the quantity of real GDP demanded.
D) makes it less costly for people to buy houses and cars.

Answer: A

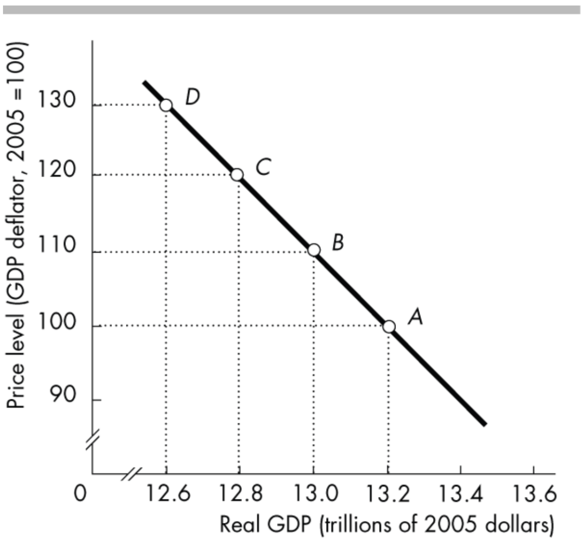
24) One reason that the aggregate demand curve has a negative slope is that when the domestic price level rises,
A) firms produce more goods and services.
B) firms produce fewer goods and services.
C) people substitute toward more imported goods and services.
D) peoples′ wealth increases.
Answer: C

25) One reason that the aggregate demand curve has a negative slope is because
A) firms supply more when prices rise.
B) people buy more foreign goods when the domestic price level rises.
C) the amount of money in the economy increases when the price level rises.
D) firms supply less when prices rise.
Answer: B

26) There are several reasons why the aggregate demand curve is downward sloping. Which of the following correctly describes one of these explanations?
A) A rise in the price level raises the purchasing power wealth and increases desired consumption.
B) A rise in the price level raises interest rates and increases investment spending.
C) A fall in the price level, holding foreign prices and the exchange rate constant, increases net exports.
D) A rise in the price level lowers the interest rate and increases investment spending.
Answer: C

27) When the prices of U.S.-produced goods rise and the price of foreign-produced goods do not change, the result is
A) an increase in exports.
B) a decrease in exports.
C) a decrease in imports.
D) no change in imports or exports.
Answer: B

28) When the price level in France increases while the exchange rate and the price level in the United States remain the same, the result is
A) U.S.-made goods become relatively cheaper compared to French-made goods.
B) French citizens are more likely to buy U.S.-made goods.
C) U.S. citizens are less likely to buy French-made goods.
D) All of the above answers are correct.
Answer: D



29) In the above figure, the economy is initially at point B. Then the price level falls by 10. The wealth effect will help

A) move the economy to point *A*.
B) move the economy to point *C*.
C) move the economy to point *D*.
D) keep the economy to point *B*.
Answer: A

30) In the above figure, the economy initially is at point *B*. Then price level rises by 10. The wealth effect will help
A) move the economy to point *A*.
B) move the economy to point *C*.
C) move the economy to point *D*.
D) keep the economy to point *B*.
Answer: B

31) In the above figure, the economy initially is at point *C*. Then the domestic price level rises by 10. A
A) substitution effect would help move the economy to point *D*.
B) substitution effect would help move the economy to point *B*.
C) substitution effect would keep the economy at point *C*.
D) wealth effect would help move the economy to point *B*.
Answer: A

32) An increase in aggregate demand is shown by a
A) rightward shift the *AD* curve.
B) movement upward along the *AD* curve.
C) movement downward along the *AD* curve.
D) leftward shift the *AD* curve.
Answer: A

33) Which of the following does NOT shift the aggregate demand curve?
A) a decrease in the quantity of money
B) an increase in people′s expected future incomes
C) an increase in the price level
D) an increase in current foreign income
Answer: C

34) Which of the following would NOT shift the U.S. aggregate demand curve?
A) a change in income in Canada
B) a change in the quantity of capital in the United States
C) an expectation that inflation will be lower in the future
D) U.S. monetary and fiscal policy
Answer: B

35) Which of the following changes would NOT shift the aggregate demand curve?
A) a change in fiscal policy
B) a change in monetary policy
C) a change in expectations about future income
D) an increase in technology
Answer: D

36) Aggregate demand increases when
A) foreign incomes fall.
B) interest rates rise.
C) the exchange rate rises.
D) None of the above answers is correct.
Answer: D

37) A change in ________ creates a movement along the aggregate demand curve, while a change in ________ shifts the aggregate demand curve.
A) expected profits; tax rates
B) the price level; government expenditures
C) foreign income; the foreign exchange rate

D) real wealth; human capital
Answer: B

38) Which of the following shifts the aggregate demand curve rightward?
A) a decrease in consumption
B) an increase in investment
C) a decrease in net exports
D) a decrease in government expenditure on goods and services
Answer: B

39) Suppose consumers decrease their consumption expenditure because they worry about what their income will be in the future. There is
A) a rightward shift of the aggregate demand curve.
B) an upward movement along the aggregate demand curve.
C) a downward movement along the aggregate demand curve.
D) a leftward shift of the aggregate demand curve.
Answer: D

40) If the expected future inflation rate decreases, then
A) aggregate demand increases.
B) short-run aggregate supply increases.
C) aggregate demand decreases.
D) long-run aggregate supply decreases.
Answer: C

41) If higher inflation is expected in the future, then the
A) *SAS* curve shifts rightward.
B) *AD* curve shifts rightward.
C) *LAS* curve shifts rightward.
D) None of the above answers is correct.
Answer: B

42) People expect their incomes will decrease next year. As a result, the ________ will shift ________.
A) short-run aggregate supply curve; rightward
B) aggregate demand curve; rightward
C) aggregate demand curve; leftward
D) long-run aggregate supply curve; rightward
Answer: C

43) If People think that drought in Australia is expected in the coming years. If most Australian firms expect their profits will fall during the next five years, Australia's ________ this year.
A) aggregate demand will increase
B) long-run aggregate supply will increase
C) aggregate demand will decrease
D) short-run aggregate supply will increase
Answer: C

44) A decrease in government transfer payments
A) increases aggregate demand.
B) increases the aggregate quantity demanded.
C) decreases the aggregate quantity demanded.
D) decreases aggregate demand.
Answer: D

45) An increase in government expenditure on goods and services
A) increases aggregate demand.
B) increases the aggregate quantity demanded.
C) decreases the aggregate quantity demanded.
D) decreases aggregate demand.
Answer: A

46) A decrease in government expenditure on goods and services
A) increases aggregate demand.
B) increases the aggregate quantity demanded.
C) decreases the aggregate quantity demanded.
D) decreases aggregate demand.
Answer: D

47) A decrease in government expenditure shifts the *AD* curve ________ and a decrease in taxes shifts the *AD* curve ________.
A) rightward; rightward
B) rightward; leftward
C) leftward; rightward
D) leftward; leftward
Answer: C

48) Which of the following shifts the aggregate demand curve leftward?
A) an increase in consumption expenditures
B) a decrease in taxes
C) a decrease in government expenditures on goods and services
D) an increase in net exports of goods and services
Answer: C

49) Disposable income ________ when ________.
A) decreases; taxes increase
B) decreases; transfer payments increase
C) increases; government expenditures decrease
D) decreases; aggregate income increases
Answer: A

50) The aggregate demand curve
A) shifts rightward when the price level increases and leftward when the price level falls.
B) shifts rightward when taxes are decreased.
C) shifts rightward when foreign incomes decrease and shifts leftward when foreign incomes increase.
D) does not shift, unlike market demand curves.
Answer: B

51) If taxes are increased, the *AD* curve
A) is not affected because a change in taxes is a nominal change not real change.
B) shifts rightward and aggregate demand decreases.
C) shifts leftward and aggregate demand decreases.
D) does not shift but there is a movement down along the curve.
Answer: C

52) Which of the following decreases aggregate demand?
A) The government increases taxes on both business and personal income.
B) Foreign incomes rise.
C) The quantity of money in the economy increases.
D) Households believe that the economy is headed for good times, with higher future incomes.
Answer: A

53) Which of the following increases aggregate demand?
A) a decrease in taxes
B) a decrease in foreign income
C) a decrease in government expenditure
D) a rise in the interest rate
Answer: A

54) Which of the following shifts the aggregate demand curve rightward?
A) an increase in the tax rate
B) a decrease in the price level
C) an increase in the quantity of money

D) an increase in the exchange rate
Answer: C

55) Which of the following increases aggregate demand?
A) an increase in taxes
B) an increase in the quantity of money
C) an increase in the exchange rate
D) a decrease in government expenditures
Answer: B

56) If the quantity of money increases, the
A) price level rises and the *AD* curve does not shift.
B) *AD* curve shifts leftward and aggregate demand decreases.
C) *AD* curve does not shift and there is a movement upward along the curve.
D) *AD* curve shifts rightward and aggregate demand increases.
Answer: D

57) Which of the following shifts the aggregate demand curve rightward?
A) a decrease in the price level
B) a decrease in government expenditures
C) an increase in the quantity of money
D) a decrease in transfer payments
Answer: C

58) The U.S. aggregate demand curve shifts leftward if
A) the economic conditions in Europe improve so that European incomes increase.
B) there is a tax cut.
C) the Federal Reserve hikes the interest rate.
D) the exchange rate falls.
Answer: C

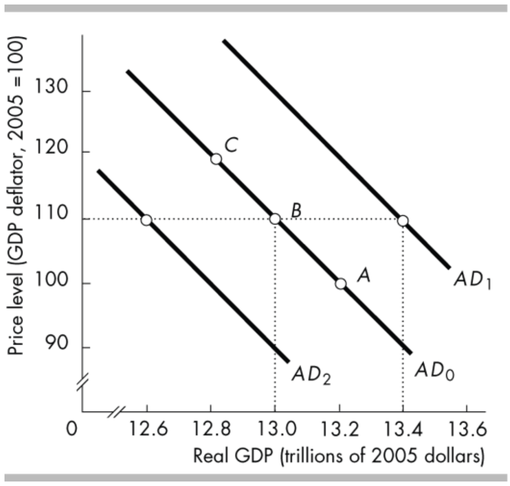
59) The U.S. exchange rate rises. As a result, there is a
A) movement along the U.S. aggregate demand curve but the curve does not shift.
B) rightward shift in the U.S. aggregate demand curve.
C) leftward shift in the U.S. aggregate demand curve.
D) rightward shift in the long-run U.S. aggregate supply curve.
Answer: C

60) When the exchange rises, then the
A) *AD* curve shifts rightward.
B) *AD* curve shifts leftward.
C) *LAS* curve shifts rightward.
D) *LAS* curve shifts leftward.
Answer: B

61) Suppose the exchange rate falls from $1.20 Canadian per U.S. dollar to $1.10 Canadian per U.S. dollar. U.S. exports will ________, U.S. imports will ________, and U.S. aggregate demand will ________.
A) decrease; increase; decrease
B) decrease; increase; increase
C) increase; decrease; increase
D) increase; increase; increase
Answer: C

62) A decrease in foreign incomes
A) increases aggregate demand in the United States.
B) increases the aggregate quantity demanded in the United States.
C) decreases the aggregate quantity demanded in the United States.
D) decreases aggregate demand in the United States.
Answer: D

63) An increase in foreign incomes
A) increases aggregate demand in the United States.
B) increases the aggregate quantity demanded in the United States.
C) decreases the aggregate quantity demanded in the United States.
D) decreases aggregate demand in the United States.
Answer: A

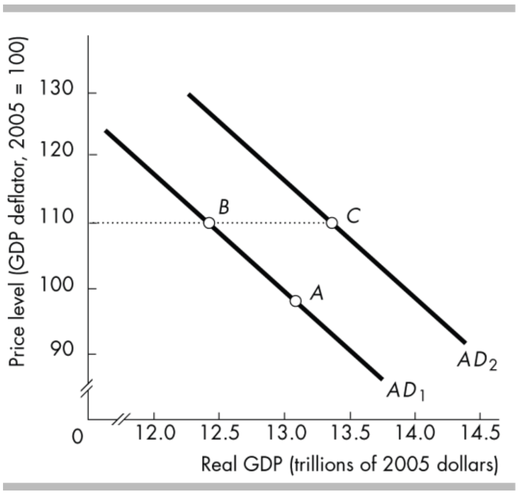


64) In the above figure, the economy is initially at point *B*. If the government decreases transfer payments, there is
A) a movement to point *C*.
B) a movement to point *A*.
C) a shift to *AD*2.
D) a shift to *AD*1.
Answer: C

65) In the above figure, the economy is initially at point *B*. If taxes increase, there is
A) a movement to point *C*.
B) a movement to point *A*.
C) a shift to *AD*2.
D) a shift to *AD*1.
Answer: C

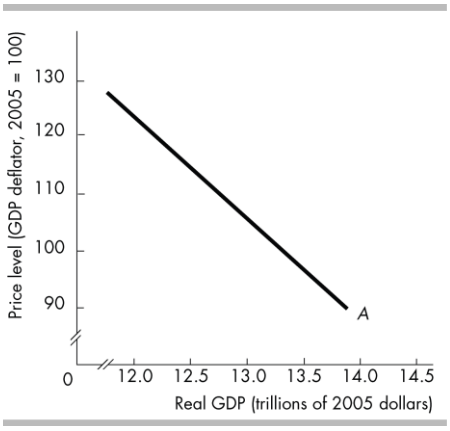
66) In the above figure, the economy is initially at point *B*. If the Fed decreases the quantity of money, there is
A) a movement to point *C*.
B) a movement to point *A*.
C) a shift to *AD*2.
D) a shift to *AD*1.
Answer: C

67) In the above figure, the economy is initially at point *B*. If the Fed increases the quantity of money, there is
A) a movement to point *C*.
B) a movement to point *A*.
C) a shift to *AD*2.
D) a shift to *AD*1.
Answer: D



68) In the above figure, the movement from point *B* to point *A* might be the result of
A) an increase in government expenditures because of a war.
B) an increase in government expenditures because of increases in education expenditures.
C) an increase in the demand for manufacturing goods because of new technology.
D) a fall in the price level.
Answer: D

69) In the above figure, the shift from point *C* to point *B* might be the result of
A) an increase in the price level.
B) a decrease in the price level.
C) a decrease in government expenditures.
D) an increase in the quantity of money.
Answer: C



70) The curve labeled *A* in the above figure is
A) a short-run aggregate supply curve.
B) an aggregate demand curve.
C) a long-run aggregate supply curve.
D) a production possibilities curve.
Answer: B

71) In the above figure, the curve labeled *A* shifts rightward if
A) expected future profits decrease.
B) the quantity of money decreases.
C) the substitution effect occurs.
D) taxes decrease.
Answer: D

72) The aggregate demand curve illustrates that, as the price level rises,
A) the quantity of real GDP demanded increases.

B) the quantity of real GDP demanded decreases.
C) the *AD* curve shifts rightward.
D) the *AD* curve shifts leftward.
Answer: B

73) As the price level falls, the quantity of real wealth ________ and the aggregate quantity of real GDP demanded ________.
A) increases; increases
B) increases; decreases
C) decreases; increases
D) decreases; decreases
Answer: A

Monetary Policy

1) Which of the following are policy instruments available to the Fed as it tries to achieve its macroeconomic goals?
I. government expenditures on goods and services and taxes
II. the government budget deficit or surplus
III. changes in the federal funds rate
A) I and II
B) III only
C) II and III
D) II only
Answer: B

2) Which of the following is a potential monetary policy instrument for the Fed?
A) federal funds rate
B) government budget deficit
C) income tax rates
D) profit rates
Answer: A

3) The monetary policy instrument the Federal Reserve choose to use is the
A) quantity of money.
B) exchange rate.
C) federal funds rate.
D) required reserves rate.
Answer: C

4) The federal funds rate is the interest rate
A) banks charge each other on overnight loans.
B) on the 3-month Treasury bill.
C) on the 30-year treasury bond.
D) also known as the prime rate.
Answer: A

5) To increase the quantity of money in the economy, the Federal Reserve is likely to
A) print more money and give it to the banks.
B) lower tax rates
C) sell government securities in an open market operation.
D) buy government securities in an open market operation.
Answer: D

6) If the Fed wants to increase the quantity of money, it can
A) lower income tax rates.
B) purchase U.S. government securities.
C) increase the government budget deficit.
D) raise the exchange rate.
Answer: B

7) If the Fed wants to decrease the quantity of money, it can
A) decrease the government budget deficit.
B) purchase U.S. government securities.
C) sell U.S. government securities.
D) raise income tax rates.
Answer: C

8) Which of the following increases the quantity of money?
A) an individual's cash withdrawal from a bank
B) an individual's purchase of a government security from the Fed
C) the Fed′s purchase of a government security
D) an increase in the government's budget deficit
Answer: C

9) Open market purchases by the Federal Reserve System (the Fed)
A) raise the federal funds rate.
B) increase bank reserves.
C) occur when the Fed wants to decrease the quantity of money.
D) All of the above answers are correct.
Answer: D

10) If the Fed carries out an open market operation to buy U.S. government securities, the federal funds rate ________ and the quantity of reserves ________.
A) falls; increases
B) rises; increases
C) falls; decreases
D) rises; decreases
Answer: A

11) The Fed engages in open market operations and sells government securities. The result is
A) a lower federal funds rate.
B) a higher federal funds rate.
C) an unchanged federal funds rate because other interest rates did not change.
D) More information is needed to determine what happens to the federal funds rate.
Answer: B

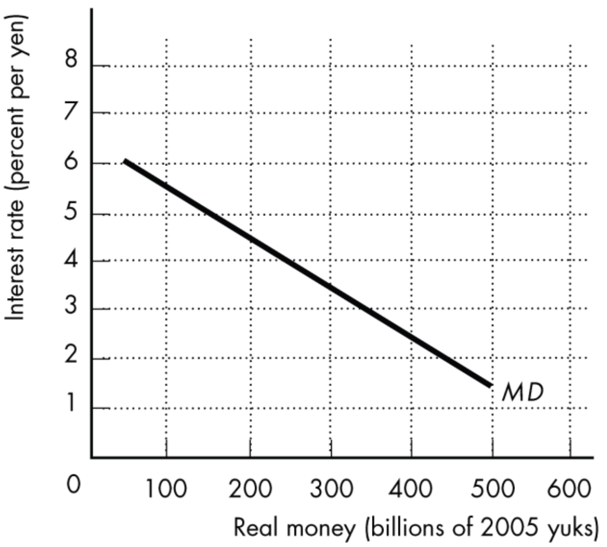
12) If the Fed wants to raise the federal funds rate it will
A) buy government securities in order to increase the quantity of reserves.
B) sell government securities in order to decrease the quantity of reserves.
C) buy government securities in order to decrease the quantity of reserves.
D) sell government securities in order to increase the quantity of reserves.
Answer: B

13) If the Fed buys U.S. government securities,
A) the federal funds rate will fall.
B) the federal funds rate will rise.
C) bank reserves will decrease.
D) the discount rate will rise.
Answer: A

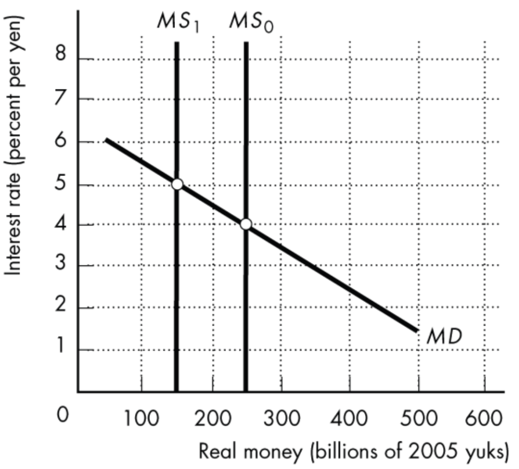
14) The Fed buys U.S. government securities from banks in order to
A) lower the federal funds rate.
B) reduce the government's budget deficit.
C) decrease banks′ reserves.
D) None of the above answers are correct.
Answer: A

15) If the Fed wants to lower the federal funds rate, it can
A) decrease the budget deficit.

B) sell government securities in the open market.
C) instruct banks to print more money.
D) buy government securities on the open market.
Answer: D



16) The figure above shows the demand for money in Kiteland.
a) If the Kiteland Central Bank has set the quantity of money so that the equilibrium interest rate is 4 percent, draw the supply of money curve.
b) Suppose that Kiteland′s Central Bank wants to raise the interest rate by 1 percentage point. By how much must it change the quantity of real money?
c) In order to change the quantity of money to raise the interest rate by one percentage point, if the Central Bank uses an open market operation, does it make an open market purchase or an open market sale? Explain your answer.
Answer:



17) In the short run, a rise in the federal funds rate ________ the price level and ________ real GDP.
A) lowers; decreases
B) lowers; does not change
C) lowers; increases
D) does not change; increases
Answer: A

18) Businesses become convinced that future profits from investment will be less than initially believed. This conviction leads to a change in aggregate ________ and so the Fed should ________ the federal funds rate if it wants to try to offset this change.
A) demand; raise
B) demand; lower
C) supply; raise
D) supply; lower
Answer: B

19) A rise in the federal funds rate
A) raises the long-term real interest rate.
B) does not change the long-term real interest rate.
C) lowers the long-term real interest rate.
D) may raise or lower the long-term real interest rate, depending on whether the demand for loanable funds curve has a negative or a positive slope.
Answer: A

Q2 State which of the following statements true or false, giving reasons:

1) If the Fed carries out an open market operation and sells U.S. government securities, the federal funds rate falls and the quantity of money increases.
Answer: FALSE

2) If the Fed carries out an open market operation and sells U.S. government securities, the federal funds rises and the quantity of money decreases.
Answer: TRUE

3) If the federal funds rate is below the Fed target, the Fed will conduct an open market sale to increase the federal funds rate to the desired level.
Answer: TRUE

4) If the Fed sells bonds in the open market, net exports will increase.
Answer: FALSE

5) If the Fed sells bonds in the open market, net exports will decrease.
Answer: TRUE

6) A decrease in the supply of loanable funds decreases the real interest rate.
Answer: FALSE

7) When the Fed lowers the federal funds rate, it increases reserves and increases the quantity of deposits and loans created.
Answer: TRUE

8) To decrease inflation, the Federal Reserve would adjust its target for the federal funds rate upward.
Answer: TRUE

9) If the Fed lowers the federal funds rate, aggregate demand decreases.
Answer: TRUE

10) The less sensitive to the interest rate are consumption expenditure and investment, the smaller is the shift in the *AD* curve when the Fed changes the federal funds rate.
Answer: TRUE

11) In the short run, the Fed′s actions to fight inflation shift the aggregate demand curve leftward.
Answer: TRUE

4 Fiscal Stimulus

1) Taxes and government expenditures that, without need for additional government action, change in response to changes in the level of economic activity are examples of
A) discretionary fiscal variables.
B) automatic fiscal policy.
C) built-in monetary stabilizers.
D) cyclically balanced budgets.
Answer: B

2) One characteristic of automatic fiscal policy is that it
A) requires no legislative action by Congress to be made effective.
B) automatically produces surpluses during recessions and deficits during inflation.
C) has no effect on unemployment.
D) reduces the size of the federal government debt during times of recession.
Answer: A

3) A fiscal action that is triggered by the state of the economy is called
A) the government expenditure multiplier.
B) discretionary fiscal policy.
C) automatic fiscal policy.
D) generational fiscal policy.
Answer: C

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

5) A fiscal action that is initiated by an act of Congress is called
A) the government expenditure multiplier.
B) discretionary fiscal policy.
C) automatic fiscal policy.
D) generational fiscal policy.
Answer: B

6) Deliberate changes in government expenditures and taxes to influence GDP
A) are examples of automatic fiscal policy because the politicians automatically respond.
B) are discretionary fiscal policy.
C) are enacted by the Council of Economic Advisers.
D) operate without time lags.
Answer: B

7) The stimulus package passed by Congress in 2009 is an example of
A) automatic fiscal policy
B) discretionary fiscal policy
C) monetary policy
D) increased taxation
Answer: B

8) The difference between automatic fiscal policy and discretionary fiscal policy is that
A) Congress initiates automatic fiscal policy.
B) the President has nothing to do with discretionary fiscal policy.
C) Congress must pass laws implementing discretionary fiscal policy.
D) the President initiates discretionary fiscal policy.
Answer: C

9) When the economy is hit by spending fluctuations, the government can try to minimize the effects by

A) changing government expenditures on goods.
B) changing taxes.
C) changing government expenditures on services.
D) all of the above
Answer: D

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

11) An increase in the tax rates as a result of a new tax law passed by Congress is an example of ________.
A) discretionary fiscal policy
B) increasing the government debt
C) increasing the government deficit
D) needs-tested taxing change.
Answer: A

12) The tax rebates passed by Congress in 2008 to help move the economy more rapidly toward potential GDP are an example of
A) automatic fiscal policy.
B) discretionary fiscal policy.
C) lump-sum taxes.
D) contractionary fiscal policy.
Answer: B

13) Tax revenues
A) are autonomous.
B) are independent of real GDP.
C) vary with real GDP.
D) are fixed over time.
Answer: C

14) A fall in income that results in a decrease in tax revenues is an example of ________.
A) automatic fiscal policy
B) needs-tested tax programs
C) a recession
D) discretionary fiscal policy
Answer: A

15) When the economy grows, ________ increase because real GDP ________.
A) tax revenues; decreases
B) tax revenues; increases
C) structural deficits; decreases
D) recognition lags; increases
Answer: B

16) Income taxes in the United States are part of automatic fiscal policy because
A) tax revenues increase when income increases, thus offsetting some of the increase in aggregate demand.
B) tax revenues decrease when income increases, intensifying the increase in aggregate demand.
C) the President can increase tax rates whenever the President deems such a policy appropriate.
D) tax rates can be adjusted by the Congress to counteract economic fluctuations.
Answer: A

17) An example of automatic fiscal policy is when
A) tax revenues decrease as real GDP decreases.
B) Congress passes a law that raises tax rates.

C) Congress decides to cut government expenditure.
D) the president drafts a bill to reduce defense spending.
Answer: A

18) Tax revenues ________ during recessions and ________ during expansions.
A) decrease; decrease
B) decrease; increase
C) increase; expansions
D) increase; increase
Answer: B

19) Spending on programs that result in transfer payments that depend on the economic state of individuals and businesses is called ________.
A) transfer spending
B) welfare
C) needs-tested spending
D) business subsidies
Answer: C

19) Which of the following bodies are responsible for the conduct of monetary policy?
A) the Federal Reserve System
B) Congress
C) the President
D) Congress and the President, jointly
Answer: A

20) Monetary policy is controlled by
A) Congress.
B) the president.
C) the Federal Reserve.
D) the Treasury Department.
Answer: C