

Practice Questions from March 4th

1. If tax revenues are \$100 million and government spending is \$80 million, the government has a budget
 - (a) surplus of \$180 million.
 - (b) deficit of \$180 million.
 - (c) deficit of \$20 million.
 - (d) surplus of \$20 million.
2. A contractionary fiscal policy is shown as a:
 - (a) rightward shift in the AD curve.
 - (b) rightward shift in the SRAS curve.
 - (c) movement along an existing AD curve.
 - (d) leftward shift in the economy's AD curve
3. A "conservative" economist who advocates an active fiscal policy would recommend:
 - (a) tax cuts during recessionary gaps and reductions in government spending during expansionary gaps.
 - (b) tax increases during recessionary gaps and tax cuts during expansionary gaps.
 - (c) tax cuts during recessionary gaps and tax increases during expansionary gaps.
 - (d) increases in government spending during recessionary gaps and tax increases during expansionary gaps.
4. In recent times, the largest source of federal government revenue in Canada has been:
 - (a) Personal income taxes.
 - (b) Corporate income taxes.
 - (c) EI premiums.
 - (d) Revenues from crown corporations.
5. Which of the following policies would help to close a recessionary gap?
 - (a) A cut in government spending.
 - (b) An increase in taxes.
 - (c) An increase in government spending.
 - (d) All of the above.
6. Suppose that the budget is currently balanced. All else equal, an increase in taxes will lead to a(n):
 - (a) Budget surplus.
 - (b) Expansionary gap.
 - (c) Budget deficit.
 - (d) Increased debt.
7. One policy dilemma posed by cost-push inflation is that:
 - (a) an expansionary fiscal policy will increase inflation and the unemployment rate simultaneously.
 - (b) an expansionary fiscal policy neither increase RGDP nor reduce inflation.
 - (c) a contractionary fiscal policy will cause a further reduction in the RGDP.
 - (d) an expansionary fiscal policy will cause a further reduction in inflation.

8. Suppose that, starting in year 1, government spending is fixed at \$80 billion per year, and that net tax revenues are \$65 billion, \$85 billion, and \$70 billion in years 1, 2, and 3, respectively. After 3 years of this country's existence, we can conclude that:
- (a) the government has a deficit of \$20 billion.
 - (b) the government has a debt of \$20 billion.
 - (c) the government has a surplus of \$20 billion.
 - (d) the government has a deficit of \$220 billion.
9. Which are contractionary fiscal policies?
- (a) Increased taxation and increased government spending.
 - (b) Increased taxation and decreased government spending.
 - (c) Decreased taxation and no change in government spending.
 - (d) No change in taxation and increased government spending.
10. Suppose that net tax revenues are equal to a fixed percentage of RGDP (call this fixed percentage the "tax rate"). If the current level of RGDP is \$80 billion, and government spending is \$12 billion, what tax rate would balance the budget?
- (a) 8%.
 - (b) 12%.
 - (c) 15%.
 - (d) 20%.