Section A: Multiple Choice Questions

1.

(2014:15)

Which of the following factors is **most** likely to increase the size of a federal budget surplus?

(a) a fall in iron ore and coal prices

(b) a depreciation of the Australian dollar

(c) a slowdown in world economic growth

(d) an increase in the proportion of the population above the retirement age

2.

(2014:17)

One weakness of fiscal policy compared with monetary policy is that fiscal policy

(a) tends to be relatively ineffective in a recession due to low levels of business and consumer confidence.

(b) is often counteracted by the operation of automatic stabilisers.

(c) suffers from a relatively long recognition lag.

(d) may be subject to political constraints.

3.

(2014:23)

An appropriate fiscal policy to overcome a deflationary gap is to

(a) reduce the level of aggregate demand by a budget deficit.

(b) raise the level of aggregate demand by a budget surplus.

(c) reduce the level of aggregate demand by a budget surplus.

(d) raise the level of aggregate demand by a budget deficit.

4.

(2015:23)

Which combination of events **best** explains why the actual Commonwealth Budget deficit may be larger than the planned budget deficit?

(i) an unexpected fall in the terms of trade

(ii) an unexpected increase in company tax receipts from improved retail sales figures

(iii) a devastating tropical cyclone in northern Australia requiring government assistance

(iv) an unexpected increase in job creation

(a) i and iii

(b) ii and iii

(c) i, ii and iv

(d) i, ii and iii

10. *(2017:21)*

'Crowding out' **best** refers to the action of

(a) governments selling bonds and interest rates rising as a consequence.

(b) governments buying bonds and driving up inflation rates.

(c) financial institutions dominating the private household borrowing sector.

(d) the Reserve Bank decreasing the cash rate and aggregate expenditure declining.

11. *(2018:21)*

Which of the following are the largest expenditure and revenue categories respectively in the Australian federal budget?

(a) education and company tax

(b) social security and welfare and income tax

(c) health and the goods and services tax (GST)

(d) defence and social security

12. *(2018:24)*

One strength of fiscal policy compared with monetary policy is that fiscal policy

(a) will have a shorter effect lag.

(b) is less likely to target individual sectors of the economy.

(c) is more effective in an economy operating at close to full capacity.

(d) is set independently by the Reserve Bank of Australia.

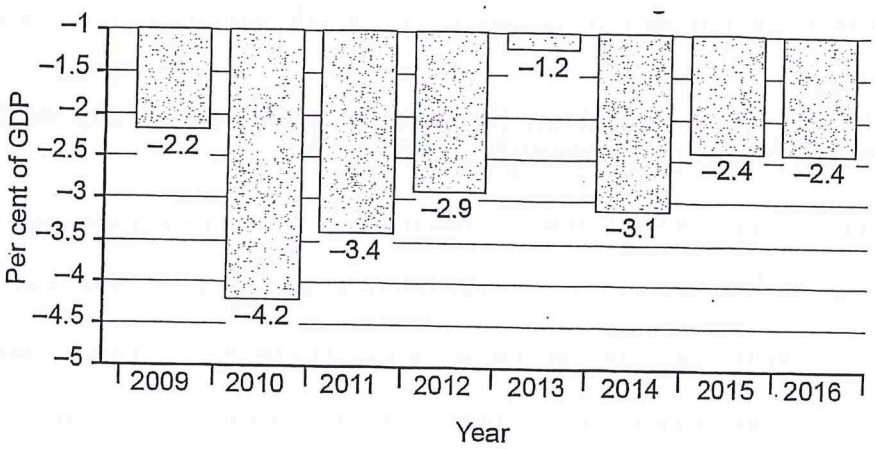
Section B: Data Interpretation Questions

1. **[12 marks]** *(2017:27)*

This question refers to the extract and graph below that show Australian Government budget data.

Australia recorded a government budget deficit equal to 2.40% of the country's gross domestic product (GDP) in 2016. The government budget in Australia averaged –0.94% of GDP from 1979 until 2016, reaching an all-time high of +2.00% of GDP in 2000 and a record low of –4.20% of GDP in 2010.

Australian Government budget



(a) (i) What is meant by the phrase 'government budget deficit'? [1]

_____

_____

(ii) Identify the year with the largest budget deficit. [1]

_____

(iii) Between which **two** years was the budget most contractionary? [1]

_____

CONTINUED NEXT PAGE

5. *(2015:24)*

A government budget deficit will

(a) increase the demand for loanable funds, increasing interest rates.

(b) decrease the demand for loanable funds, decreasing interest rates.

(c) increase the demand for loanable funds, decreasing interest rates.

(d) decrease the demand for loanable funds, increasing interest rates.

6. *(2016:18)*

Which of the following is a strength of fiscal policy?

(a) recognition lags

(b) implementation lags

(c) political constraints

(d) effectiveness in recessions

7. *(2016:20)*

An increase in the rate of income tax is an example of

(a) expansionary fiscal policy.

(b) automatic fiscal policy.

(c) discretionary fiscal policy.

(d) redistributive fiscal policy.

8. *(2016:24)*

Which of the following would be considered a discretionary fiscal policy?

(a) a cut in income taxes during a recession

(b) an increase in money supply during a recession

(c) an increase in company tax receipts during a boom

(d) a decrease in unemployment benefit payments during a boom

9. *(2017:20)*

Which of the following is an example of a discretionary fiscal policy?

(a) an increase in company tax revenue due to high profit levels

(b) an increase in welfare spending because of higher unemployment

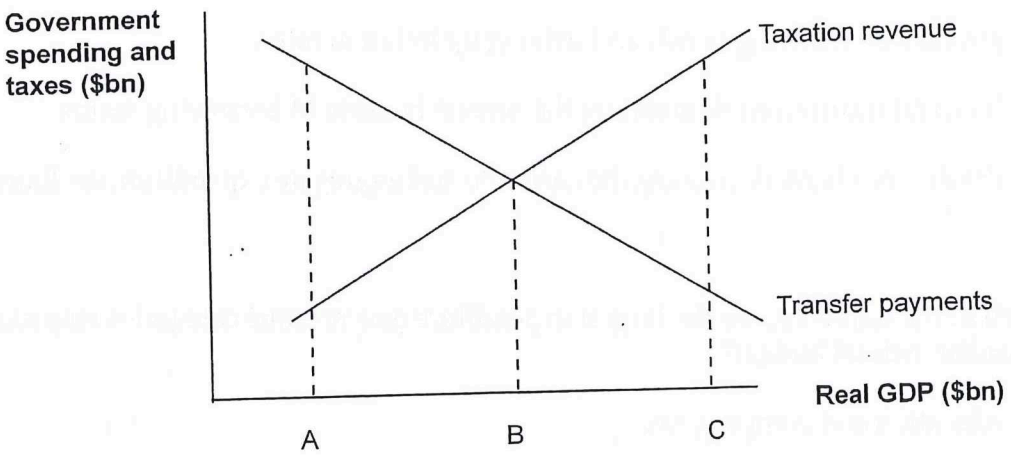
(c) an increase in spending on infrastructure during a recession

(d) a decrease in personal income tax receipts during a recession

(2019:17)

13.

The diagram below shows the effect of automatic stabilisers on budget outcomes.



An economic recession would be reflected in a movement between which two points?

(a) B to A

(b) B to C

(c) A to B

(d) A to C

(2019:18)

14.

Which method of financing a budget deficit will **most** likely lead to an appreciation of the Australian dollar?

(a) borrowing from the Reserve Bank of Australia

(b) purchasing government bonds from the Australian public

(c) borrowing from overseas countries

(d) raising finances through crowd funding platforms

(2019:19)

15.

Which of the following **most** accurately describes the Australian government budget outcomes over the past three years?

(a) increasing budget deficits

(b) decreasing budget surpluses

(c) increasing budget surpluses

(d) decreasing budget deficits

(b) Identify **three** methods the government could use to finance a budget deficit. [3]

(c) Discuss the likely impact on the level of economic activity of the Australian Government's fiscal policy stance from 2014 to 2016. [6]