

Feedback — Week Eight Quiz

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You submitted this quiz on **Sun 9 Mar 2014 6:57 AM PDT**. You got a score of **23.00** out of **23.00**.

Question 1

Classical economists argue that:

Your Answer	Score	Explanation
<input type="radio"/> Budget deficits are a necessary byproduct of an expansionary fiscal policy during recessions.		
<input checked="" type="radio"/> Budget deficits are bad and should be avoided except in wartime.	✓ 1.00	
<input type="radio"/> Budget deficits are normal for any developed economy		
<input type="radio"/> Don't know		
Total	1.00 / 1.00	

Question 2

How is government debt calculated?

Your Answer	Score	Explanation
<input checked="" type="radio"/> The accumulated budget deficits minus the accumulated surpluses.	✓ 1.00	
<input type="radio"/> The accumulated budget deficits plus the accumulated		

surpluses.

☐ The accumulated budget deficits times the accumulated
surpluses.

☐ Don't know

Total	1.00 / 1.00
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Question 3

Who holds the national debt for a country like the United States?

Your Answer	Score	Explanation
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☐ 1. Households

☐ 2. Businesses

☐ 3. Foreigners

☒ All of the above ✓ 1.00

☐ 1 & 2 only

Total	1.00 / 1.00
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Question 4

In comparing the debt burden across countries, one common yardstick is:

Your Answer	Score	Explanation
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☐ Don't know

☐ Real GDP☐ Nominal GDP☒ The Debt-to-GDP Ratio

1.00

Total

1.00 / 1.00

Question 5

What is the correct formula for the Real Deficit?

Your Answer**Score****Explanation**☐ Don't know☒ Real Deficit = Nominal Deficit – (Inflation * Total Debt)

1.00

☐ Real Deficit = Nominal Deficit – (Inflation * Average Annual Debt)☐ Real Deficit = Nominal Deficit + (Inflation * Total Debt)

Total

1.00 /
1.00

Question 6

Assume that the nominal deficit = \$200 billion, the inflation rate = 20%, and the total debt = \$5 trillion. What's the real deficit?

Your Answer**Score****Explanation**☐ 0

<input type="radio"/> Don't know	
<input type="radio"/> -\$400 billion	
<input checked="" type="radio"/> -\$800 billion	✓ 1.00
Total	1.00 / 1.00

Question 7

One strategy a government can use to lower its debt burden is to:

Your Answer	Score	Explanation
<input type="radio"/> Contractionary monetary policy		
<input type="radio"/> Decrease inflation		
<input type="radio"/> Don't know		
<input checked="" type="radio"/> Increase inflation	✓ 1.00	
Total	1.00 / 1.00	

Question 8

That part of the budget deficit that would exist even if the economy were at full employment is called the:

Your Answer	Score	Explanation
<input type="radio"/> Persistent deficit		
<input type="radio"/> Don't know		

<input checked="" type="radio"/> Structural deficit	✓	1.00
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<input type="radio"/> Cyclical deficit		
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Total		1.00 / 1.00
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Question 9

Which of the following are automatic stabilizers?

Your Answer	Score	Explanation
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<input type="radio"/> Food stamps		
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<input type="radio"/> Welfare benefits		
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<input type="radio"/> Unemployment insurance		
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<input checked="" type="radio"/> All of the above	✓	1.00
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<input type="radio"/> Don't know		
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Total		1.00 / 1.00
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Question 10

The structural deficit results primarily from the shortfall of tax revenues that arises when the economy's resources are underutilized such as in the downward portions of the business cycle.

Your Answer	Score	Explanation
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<input type="radio"/> True		
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<input checked="" type="radio"/> False	✓	1.00
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☐ Don't know

Total

1.00 / 1.00

Question 11

Okun's Law says that a 1% fall in the unemployment rate will lead to a:

Your Answer	Score	Explanation
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☐ 2% increase in the rate of productivity

☐ Don't know

☒ 2% increase in the GDP growth rate ✓ 1.00

☐ 2% increase in the inflation rate

Total

1.00 / 1.00

Question 12

Suppose the GDP = \$10 trillion, the budget deficit = \$100 billion, the unemployment rate = 7%, the natural rate of unemployment is 6%, and the marginal tax rate = 30%. Which portion of the deficit is cyclical?

Your Answer	Score	Explanation
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☐ \$40 billion

☐ \$20 billion

☒ \$60 billion ✓ 1.00

☐ Don't know

Total 1.00 / 1.00

Question 13

Suppose you are attempting to calculate the structural component of the budget deficit. In your calculations, will that structural deficit be higher or lower at a 4% natural rate of unemployment as opposed to a 6% rate?

Your Answer	Score	Explanation
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☐ Higher

☐ Don't know

☐ The same

☒ Lower ✓ 1.00

Total 1.00 / 1.00

Question 14

Three major ways to finance a budget deficit include:

Your Answer	Score	Explanation
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☐ 1. Lower taxes

☐ 2. Borrow money

☐ 3. Print money

☐ All of the above

☒ 2 & 3 only ✓ 1.00

☐ Don't know

Total

1.00 / 1.00

Question 15

Suppose the government institutes a \$10 billion stimulus and finances that stimulus package by raising taxes by \$10 billion. Suppose further the $MPC = .5$. What will be the net stimulus?

Your Answer

Score

Explanation

☐ Don't know

☐ \$20 billion

☒ \$5 billion



1.00

☐ \$10 billion

Total

1.00 / 1.00

Question 16

"Crowding out" refers to:

Your Answer

Score

Explanation

☐ The reduction in both G and I when interest rates rise

☒ The reduction in I that may come when G is increased



1.00

☐ The reduction in G that may come when I is increased

☐ Don't know

Total

1.00 / 1.00

Question 17

The view that crowding out is almost complete so that fiscal policy is totally ineffective is associated with what school of macroeconomics?

Your Answer**Score****Explanation**☐ Don't know☒ Monetarists

1.00

☐ Libertarians☐ Keynesians

Total

1.00 / 1.00

Question 18

To avoid crowding out, the Federal Reserve “accommodates” the Treasury’s expansionary fiscal policy by:

Your Answer	Score	Explanation
<input type="radio"/> Contracting the money supply		
<input checked="" type="radio"/> Buying Treasury securities	✓ 1.00	
<input type="radio"/> Don't know		
<input type="radio"/> Selling Treasury securities		
Total	1.00 / 1.00	

Question 19

What can derail the Fed’s plans when it tries to avoid crowding out by accommodating government fiscal policy?

Your Answer	Score	Explanation
<input type="radio"/> Rising productivity		
<input type="radio"/> Unemployment		
<input type="radio"/> Don't know		
<input checked="" type="radio"/> Inflation	✓ 1.00	
Total	1.00 / 1.00	

Question 20

Budget deficits can cause trade deficits if:

Your Answer	Score	Explanation
<input type="radio"/> Don't know		
<input type="radio"/> Deficit financing lowers interest rates and raises the value of the dollar		
<input type="radio"/> Deficit financing raises interest rates and lowers the value of the dollar		
<input checked="" type="radio"/> Deficit financing raises interest rates and raises the value of the dollar	✓ 1.00	
Total	1.00 / 1.00	

Question 21

The Deficit Hawks argue that:

Your Answer	Score	Explanation
<input type="radio"/> 1. Internal debt leads to higher taxes		
<input type="radio"/> 2. Internal debt redistributes income from the poor to the rich		
<input type="radio"/> 3. Servicing the debt cuts government services		
<input checked="" type="radio"/> All of the above	✓ 1.00	
<input type="radio"/> 2 & 3 only		
<input type="radio"/> Don't know		

Total	1.00 /
	1.00

Question 22

The Deficit Doves argue that:

Your Answer	Score	Explanation
<input type="radio"/> 1. The national debt represents productive investment in public goods and infrastructure.		
<input type="radio"/> 2. The debt is manageable relative to GDP.		
<input type="radio"/> 3. Since we "owe it largely to ourselves," it is not a problem.		
<input checked="" type="radio"/> All of the above	✓ 1.00	
<input type="radio"/> 2 & 3 only		
<input type="radio"/> Don't know		
Total	1.00 /	
	1.00	

Question 23

A balanced budget amendment would require the government to balance the budget during a recession by increasing taxes or by cutting spending. The result would be:

Your Answer	Score	Explanation
<input type="radio"/> Don't know		
<input type="radio"/> No effect on growth		

<input type="radio"/> A faster recovery		
<input checked="" type="radio"/> A deeper recession	✓	1.00
Total		1.00 / 1.00

