

Chapter 15 Federal Budgets Questions

1. Which of the following is considered mandatory government spending?

- a. Funding for the Environmental Protection Agency (EPA).
- b. Payments to active military personnel.
- c. Infrastructure maintenance spending.
- d. International aid to poor countries.
- e. Payments to Social Security recipients.

2. Mandatory outlays:

- a. usually change during the budget process.
- b. cannot be altered once they are made into law.
- c. require changes in existing laws if those outlays are to be altered.
- d. are a minor component of total outlays, and so are usually ignored.
- e. are another name for discretionary outlays.

3 Which of the following is considered discretionary government spending?

- a. Payments to Social Security recipients.
- b. Payments to unemployment insurance recipients.
- c. Payments to government employees.
- d. Payments to food stamp recipients.
- e. Payments to foreign bondholders.

4. Mandatory outlays are different than discretionary outlays because:

- a. mandatory outlays usually change during the budget process, whereas discretionary outlays do not.
- b. mandatory outlays have been decreasing as a percentage of the federal budget, whereas discretionary outlays have been increasing as a percentage of the federal budget.
- c. discretionary outlays can be changed during the annual budget process, whereas mandatory outlays cannot.
- d. discretionary outlays include entitlement programs (such as Social Security and Medicare), whereas mandatory outlays include important government programs (such as defense).
- e. discretionary outlays comprise the vast majority of the total budget, whereas mandatory outlays make up only a minor fraction.

5. Assuming all of the following are in your personal monthly budget, your _____ payment is considered a discretionary outlay.

- a. mortgage (or rent, if you do not own a home)
- b. car loan
- c. student loan
- d. food bill
- e. boat loan

- 6. Due to _____, government outlays have risen quickly since 2000.**
- a. less tax revenue
 - b. an aging population
 - c. rising inflation
 - d. economic expansion
 - e. lower interest payments on current government debt
- 7. Social Security and Medicare spending continue to grow and take up larger shares of the federal budget because life expectancy is _____, the number of people receiving benefits is _____ quickly, and the growth in the number of people paying into the programs is _____.**
- a. increasing; increasing; decreasing
 - b. decreasing; increasing; decreasing
 - c. increasing; decreasing; decreasing
 - d. increasing; increasing; increasing
 - e. decreasing; decreasing; increasing
- 8. Federal government spending jumped during 2008–2009 primarily because of:**
- a. expansionary fiscal policy in response to the Great Recession.
 - b. increased spending on bridge and road infrastructure.
 - c. increased foreign aid to disaster-stricken areas.
 - d. increased spending on the U.S. education system.
 - e. the bailout payments made to big banks.
- 9. Which of the following is NOT a revenue source for the U.S. federal government?**
- a. State sales taxes.
 - b. Federal gasoline taxes.
 - c. Federal income taxes.
 - d. Medicare taxes.
 - e. Admission fees for national parks.
- 10. The largest source of tax revenue for the government is _____ taxes.**
- a. individual income
 - b. corporate income
 - c. social insurance
 - d. estate
 - e. excise
- 11. During the Great Recession, as a percentage of gross domestic product (GDP), federal government outlays were _____, and government revenues were _____ their long-run averages over the period 1970–2017.**
- a. above; below
 - b. below; above
 - c. above; above
 - d. below; below
 - e. equal to; equal to

12. Why did tax revenues fall so sharply after 2007?

- a. Tax rates were drastically lowered.
- b. A slowdown in economic activity increased unemployment.
- c. Many people moved out of the country because of increased tax rates.
- d. A large increase in the number of retirees led to a decrease in the number of people paying taxes.
- e. Congress approved tax cuts in the prior year.

13. Budget deficits tend to:

- a. increase over time.
- b. decrease over time.
- c. increase during recessions.
- d. increase during expansions.
- e. grow as the economy grows and shrink as the economy shrinks.

14. If government outlays in 2018 were \$3.5 trillion, including interest on debt, and government revenues were \$2.8 trillion, the federal:

- a. debt was unaffected.
- b. debt decreased by \$700 billion.
- c. budget surplus was \$700 billion.
- d. budget deficit was \$700 billion.
- e. budget was balanced.

15. The obvious way to reduce or eliminate a budget deficit is to raise tax rates. What is the main problem with this solution?

- a. Some people will find a way to avoid paying the higher tax.
- b. Raising taxes across the board is unfair to the poor.
- c. Higher taxes act as a damper on the economy.
- d. Sometimes it is actually desirable to run a deficit.
- e. Higher taxes introduce uncertainty that makes budget planning harder.

16. If government revenues in 2018 were \$3.1 trillion and government outlays, including interest on debt, were \$2.8 trillion, the federal:

- a. debt was unaffected in that year.
- b. debt decreased by \$300 billion.
- c. debt increased by \$300 billion.
- d. budget deficit was \$300 billion.
- e. budget was balanced.

17. The federal budget deficit has grown so quickly in the past 5–10 years because of:

- a. increased tax revenue.
- b. increased spending on entitlement programs.
- c. lower income tax rates on the top 1% of households.
- d. economic expansion.
- e. higher interest payments on current government debt.

18. Why does the federal debt tend to increase during periods of recession?

- a. Economic activity decreases, which decreases revenues and increases outlays.
- b. Economic activity decreases, which decreases revenues and decreases outlays.
- c. Economic activity increases, which increases revenues and increases outlays.
- d. Economic activity increases, which increases revenues and decreases outlays.
- e. Economic activity increases, which decreases revenues and increases outlays.

19. On the spending side, what is the main big-picture challenge for anyone trying to balance the federal budget?

- a. The growth of discretionary spending as a percentage of the overall total.
- b. The growth of mandatory spending as a percentage of the overall total.
- c. The growth of interest on debt as a percentage of the overall total.
- d. The uncertainty caused by frequent legislative changes in spending policy.
- e. There is no big challenge on the spending side, just on the revenue side.

Use the following table to answer the next 2 questions, where GDP = gross domestic product.

| Public Debt over Time | | | | |
|-----------------------|----------------|----------------|----------------|----------------|
| | 2001 | | 2011 | |
| | Debt | GDP | Debt | GDP |
| Canada | \$0.6 trillion | \$1.0 trillion | \$0.7 trillion | \$1.5 trillion |
| France | \$0.9 trillion | \$1.5 trillion | \$1.8 trillion | \$2.0 trillion |
| Italy | \$1.5 trillion | \$1.2 trillion | \$1.7 trillion | \$1.6 trillion |
| Norway | \$0.1 trillion | \$0.2 trillion | \$0.1 trillion | \$0.3 trillion |
| Australia | \$0.2 trillion | \$0.7 trillion | \$0.4 trillion | \$1.4 trillion |

20. According to the table, the country with the highest average yearly budget deficit over the time period is:

- a. Canada.
- b. France.
- c. Italy.
- d. Norway.
- e. Australia.

21. According to the table, the country with the lowest average yearly budget deficit over the time period is:

- a. Canada.
- b. France.
- c. Italy.
- d. Norway.
- e. Australia.

22. Which country faces the most severe fiscal challenges—in terms of debt-to-GDP (gross domestic product) ratio—according to the accompanying table?

| Public Debt across the World | | |
|-------------------------------------|--------------------------|----------------|
| | Total Public Debt | GDP |
| Canada | \$0.7 trillion | \$1.5 trillion |
| Italy | \$2.9 trillion | \$2.2 trillion |
| France | \$2.3 trillion | \$2.7 trillion |
| Jamaica | \$0.3 trillion | \$0.2 trillion |
| Cyprus | \$0.2 trillion | \$0.2 trillion |

- a. Canada
- b. Italy
- c. Jamaica
- d. France
- e. Cyprus

23. Discretionary spending is a shrinking part of the federal budget. What is a possible consequence of this development?

- a. Politicians will have more control over spending, increasing favoritism and corruption in Congress.
- b. Income assistance programs will eventually have revenue shortfalls and be unable to fulfill their obligations.
- c. There will be more competition for public works and infrastructure projects.
- d. The federal government will be forced to default on interest payments, reducing the overall creditworthiness of the United States.
- e. State and local governments will automatically assume discretionary spending responsibilities.

24. Which component of the federal budget has accounted for a steadily increasing percentage of the total budget since the 1970s?

- a. Interest on debt.
- b. Income aid.
- c. Social insurance.
- d. Defense.
- e. Miscellaneous discretionary outlays.

25. Many people are concerned about foreign ownership of U.S. debt. The concern stems from a fear that:

- a. the interest paid on foreign debt is too high.
- b. foreigners who own the debt have too much power over the country.
- c. foreign-held debt will be impossible to pay off.
- d. it would be hard to wage war against nations holding U.S. debt.
- e. foreigners who own the debt do not pay taxes on the interest earned.

26. One of the main benefits of foreign ownership of U.S. debt is that:

- a. it increases the supply of loanable funds in the United States.
- b. It makes it harder for other nations to wage war against the United States.
- c. It is kept out of the hands of private corporations in the United States.
- d. foreign-held debt is easier to pay off than domestically-held debt.
- e. interest is lower for foreign-held debt than for domestically-held debt.

27. If government revenues in 2010 were \$2.1 trillion and government outlays, *not* including interest on debt, were \$2.1 trillion, this means:

- a. the federal debt was unaffected in that year.
- b. the federal debt increased.
- c. the federal debt decreased.
- d. there was a budget surplus.
- e. the federal budget was balanced.

28. If government revenues in 2019 were \$2.7 trillion and government outlays, including interest on debt, were \$3.1 trillion, the federal:

- a. debt was unaffected in that year.
- b. budget was balanced.
- c. budget surplus was \$400 billion.
- d. debt decreased by \$400 billion.
- e. debt increased by \$400 billion.

29. An aging population is cited as one of the reasons for fiscal concerns about Social Security and Medicare. How might this demographic shift impact future revenue generation and the national debt?

30. What are transfer payments? What is their significance for the U.S. federal budget?

31. Explain the distinction between mandatory and discretionary spending. Why is this distinction important?

32. What were the origins of the U.S. federal income tax? How has it evolved to the present day?

33. An aging population is cited as one of the reasons for future fiscal concerns for Social Security and Medicare. How might this demographic shift impact future revenue generation and the national debt?