

Name: _____ Date: _____

1. As income rises, the marginal tax rate for married couples:
 - A) decreases smoothly.
 - B) decreases in steps.
 - C) increase smoothly.
 - D) increases in steps.

2. As income rises, the average tax rate for married couples:
 - A) decreases smoothly.
 - B) decreases in steps.
 - C) increases smoothly.
 - D) increases in steps.

3. The tax rate paid on an additional dollar of income is the:
 - A) higher tax rate.
 - B) secondary tax rate.
 - C) marginal tax rate.
 - D) reserve tax rate.

4. Suppose the tax rate on the first \$20,000 income is 0%; 10% on the next \$20,000 earned; and 20% on any additional income earned. The average tax rate for a person earning \$35,000 is:
 - A) 0%.
 - B) 3.5%.
 - C) 4.3%.
 - D) 10%.

5. The money you pay into Social Security goes to:
 - A) an individual account.
 - B) a trust that earns interest to help pay your benefits.
 - C) pay current beneficiaries.
 - D) the investment fund of your choice.

6. Bill Clinton's administration experienced a federal budget surplus. Which of the following is therefore correct?
- A) The federal budget was still in deficit, but the deficit was smaller in amount than in previous years.
 - B) The national debt reached record high levels.
 - C) The national debt held by the public decreased.
 - D) Government expenditure was no longer counted as part of the federal budget.
7. Debt held outside the U.S. government is called the:
- A) total U.S. national debt.
 - B) debt-to-GDP ratio.
 - C) publically held national debt.
 - D) debt to foreign investor holdings.
8. What is the annual difference between federal spending and revenues called?
- A) the deficit
 - B) the national debt held by the public
 - C) tax revenue shortfall
 - D) spending as a percentage of GDP
9. What was Milton Friedman's argument for a volunteer army instead of a military draft?
- A) The societal cost of a draft was much higher than the paychecks of a volunteer army because of the significant opportunity cost of drafted soldiers.
 - B) A volunteer army would cost less in dollar terms than a drafted army.
 - C) The United States would no longer need an active army because the the country could protect itself adequately with just a few volunteer soldiers.
 - D) None of the answers is correct.
10. Robert recently got a massive raise in hourly salary. It turns out that he works less hours than before. What is the cause of this?
- A) The substitution effect and income effect are cancelling out
 - B) The substitution effect dominates the income effect
 - C) The income effect dominates the substitution effect
 - D) The wealth effect dominates the income effect

Answer Key

1. D
2. C
3. C
4. C
5. C
6. C
7. C
8. A
9. A
10. C