Problem 1. If a government's expenditures exceed its tax revenues, then the government has

(a) a budget deficit

(b) a budget surplus

(c) a balanced budget

(d) national debt

Problem 2. The government increases its spending by an amount equal to the increase in its tax revenue. This is called

- printing money
- deficit spending
- surplus spending
- balanced budget spending

Problem 3. The government increases its spending by an amount greater than the increase in its tax revenue. It sells bonds to the public to raise the needed money. Subsequently, the Fed buys back some of these bonds through an open market purchase. The Fed's action is called

(a) monetizing the debt

(b) deficit spending

(c) surplus spending

(d) automatic stabilizer

Problem 4. The government revenues and expenditures that move against real GDP, making it deviate from potential GDP from an amount less than it would otherwise in their absence, are called

(a) fiscal policy measures

(b) automatic stabilizers

(c) self-correction variables

(d) balanced-budget variables

Problem 5. Suppose we observed that the interest rate increased in the last month. Which of the following events would be consistent with this observation?

(a) All else the same, demand for money has increased in that month

(b) All else the same, both demand for money and supply of money have increased in that month, but the supply has increased at a lower rate

(c) All else the same, demand for money has increased in that month but the supply has decreased

(d) Any of the above could be correct

(e) None of the above

Problem 6. What will happen to the equilibrium interest rate in the Keynesian liquidity preference model for sure during a stagflation?

(a) Demand for money will increase resulting in an increase in the equilibrium interest rate

(b) Demand for money will decrease resulting in a reduction in the equilibrium interest rate

(c) Demand for money will not change

(d) We cannot answer this question without additional information

(e) None of the above

Problem 7. Suppose demand for money increases and the Federal Reserve targets the interest rate. Then

(a) the interest rate will rise

(b) the interest rate will fall

(c) the Fed will decrease the money supply

(d) the Fed will increase the money supply