Macroeconomic theory 4th quiz   December 6th (in class)

Name:

1. Holding other factors constant, the ratio of government debt to GDP can decrease as a result of any of the following changes except:
A) decreases in government spending.
B) increases in GDP.
C) decreases in tax revenues.
D) decreases in transfer payments.

2. An increase in the elderly population of a country affects fiscal policy most directly because:
A) the elderly generally are not required to pay taxes.
B) governments provide pensions and health care for the elderly.
C) the elderly favor high interest rates on their savings.
D) governments spend more on education as the proportion of the elderly increases.

3. One item that is considered part of the federal debt is:
A) Treasury bills.
B) future Social Security benefits.
C) student loans, which may go into default.
D) potential liabilities of savings and loan associations.

4. The logic of Ricardian equivalence implies that:
A) tax cuts do not influence consumer spending but changes in government spending do.
B) neither tax cuts nor changes in government spending affect consumer spending.
C) tax cuts combined with future decreases in government spending will decrease consumer spending.
D) if the government cuts taxes and increases current government spending, consumer spending will increase.

5. Financing a budget deficit by______leads to inflation, and inflation______the real value of government debt.
A) issuing debt; increases
B) issuing debt; decreases
C) printing money; increases
D) printing money; decreases

6. Hyperinflations typically occur when governments:
A) attempt to keep the unemployment rate below the natural rate.
B) finance spending with the inflation tax.
C) set inflation targets too high.
D) use discretionary monetary policy to stabilize output.

7. Ricardian equivalence refers to the same impact of financing government:
A) whether by printing money or raising taxes.
B) in the long run as in the short run.
C) whether by debt or taxes.
D) in an open economy as in a closed economy.

8. According to the traditional view of government debt (as in the IS–LM model), if taxes are cut without cutting government spending, then in the short run interest rates will ______ and investment will ______.
A) increase; increase
B) increase; decrease
C) decrease; decrease
D) decrease; increase

9. According to the traditional view point of government debt, a tax cut without a cut in government spending:
A) raises consumption in both the short run and the long run.
B) lowers consumption in both the short run and the long run.
C) raises consumption in the short run but lowers it in the long run.
D) lowers consumption in the short run but raises it in the long run.

10. Suppose a household considers only current income in making consumption decisions. This is an example of:
A) Ricardian equivalence.
B) the permanent-income hypothesis.
C) myopia.
D) the life-cycle model.