

Correct answers are indicated by ALL CAPITALS in the first words of the choice.

1. The view that whether the government finances a fiscal stimulus by taxes or borrowing makes no difference to current consumption is called:
 - A. the balanced budget multiplier.
 - B. accommodative monetary policy.
 - C. RICARDIAN EQUIVALENCE.
 - D. the implicit tax theory.
 - E. the money multiplier.

2. Government expenditures that automatically increase, or taxes that decrease, when economic conditions worsen, are called automatic stabilizers. During a recession, these will have the effect of:
 - A. increasing government spending, reducing government revenues, and reducing the federal budget deficit.
 - B. reducing government spending, increasing government revenues, and increasing the federal budget deficit.
 - C. increasing government spending, reducing government revenues, with no impact on the federal budget deficit.
 - D. reducing government spending, increasing government revenues, and reducing the federal budget deficit.
 - E. INCREASING GOVERNMENT SPENDING, reducing government revenues, and increasing the federal budget deficit.

3. The theory of Ricardian equivalence, which argues that whether the government finances a fiscal stimulus by taxes or borrowing makes no difference to current consumption, is based on the proposition that:
 - A. when taxes are used, individuals do not adjust their consumption to take account of the reduction in disposable income.
 - B. government spending crowds out an equal amount of private investment and hence has no net impact on aggregate expenditures.
 - C. in an open economy, the borrowing is from foreigners so that residents are completely unaffected now or in the future.
 - D. WHEN BORROWING IS USED, individuals will expect taxes to rise in the future and will begin saving now in anticipation of the future tax increases.
 - E. if individuals have to borrow money, they do not spend it on current consumption.

4. The full employment deficit:
 - A. is the extent of the federal deficit necessary to ensure full employment.
 - B. is the difference between the value of imports and the value of exports, evaluated at full employment.
 - C. is the difference between the number of workers employed when the economy is at full employment, and the actual number of workers employed.
 - D. IS THE DIFFERENCE BETWEEN government spending and government revenue, evaluated at full employment.
 - E. is the federal budget deficit in the absence of any automatic stabilizers.

5. Altering monetary policy to keep the interest rate constant when fiscal policy increases aggregate expenditures, national income, and money demand, which would otherwise increase the interest rate, is termed:
 - A. ACCOMODATIVE MONETARY POLICY.
 - B. the multiplier.
 - C. the money multiplier.
 - D. a fiscal stimulus.
 - E. the balanced budget multiplier.