Multiple Choice Questions

1. Fiscal Policy is controlled by
   a. The Federal Reserve Board
   B. Congress and the President
   c. The Supreme Court
   d. Private banks

2. The purpose of fiscal policy is to
   A. Alter the direction of the economy
   b. Change people's attitudes toward government
   c. Educate people as to the importance of economics
   d. Offer insight into the way things work

3. Fiscal policy is purposeful movements in ____________ designed to direct an economy.
   a. Interest rates
   b. Legal structures
   c. Government regulations
   D. Government spending and taxes

4. Discretionary Fiscal Policy differs from Nondiscretionary Fiscal Policy in that
   a. The former deals with interest rates and the latter deals with tax policy
   b. The former is built into the system whereas the latter requires timely decisions
   C. The former requires timely decisions whereas the latter is built into the system
   d. The former deals with tax policy and the latter deals with interest rates

5. Discretionary Fiscal Policy differs from Nondiscretionary Fiscal Policy in that
   a. The former deals with government spending and the latter deals with tax policy
   b. The former is chosen by Congress while the latter is chosen by the President
   c. The former is always stabilizing, while the latter is never stabilizing
   D. The former often takes years to enact, while the latter takes effect automatically
6. Replacement of a progressive income tax system with a single income tax rate would be an example of
   a. Nondiscretionary fiscal policy
   B. Discretionary fiscal policy
   c. Mandatory spending policy
d. Interest rate policy

7. An example of discretionary fiscal policy would be
   a. The operation of the welfare state
   b. The operation of the progressive federal income tax
   C. A tax cut adopted to stimulate consumption
d. An interest rate cut implemented to stimulate consumption

8. An example of discretionary fiscal policy would be
   a. The operation of the welfare state
   b. The operation of the progressive federal income tax
   C. A tax increase adopted to control inflationary pressures
d. An interest rate increase implemented to control inflationary pressures

9. An example of discretionary fiscal policy would be
   a. The existence of the welfare state
   b. The existence of the progressive federal income tax
   C. A federal jobs program adopted to stimulate consumption
d. An interest rate cut implemented to stimulate consumption

10. An example of nondiscretionary fiscal policy would be
    A. The operation of the welfare state
    b. A federal jobs program adopted to stimulate consumption
c. A tax cut adopted to stimulate consumption
d. An interest rate cut implemented to stimulate consumption
11. An example of nondiscretionary fiscal policy would be
A. The existence of the progressive federal income tax
b. A federal jobs program adopted to stimulate consumption
c. A tax cut adopted to stimulate consumption
d. An interest rate cut implemented to stimulate consumption

12. Nondiscretionary Fiscal Policy works by having
a. Progressive income tax rates take a portion of increased income thereby dampening periods of growth
b. Congress and the President agree upon a tax cut to stimulate growth
c. Welfare programs reduce spending on people when they have increased incomes thereby dampening periods of economic growth
D. A and C

13. Nondiscretionary Fiscal Policy works by having
a. Progressive income tax rates take a smaller portion of decreased income thereby cushioning periods of contraction
b. Congress and the President agree upon a tax cut to stimulate growth
c. Welfare programs increase spending on people when they have decreased incomes thereby cushioning periods of contraction
D. A and C

14. If you were to use an Aggregate Supply Aggregate Demand diagram to model nondiscretionary and discretionary fiscal policy in reaction to a negative aggregate demand shock, you would see
a. The aggregate demand curve move to the right as a result of the shock
b. The aggregate demand curve move to the left as a result of the shock
c. The aggregate demand curve move back toward its pre-shock position as a result of these policies
D. B and C
15. If you were to use an Aggregate Supply Aggregate Demand diagram to model nondiscretionary and discretionary fiscal policy in reaction to a positive aggregate demand shock, you would see
a. The aggregate demand curve move to the right as a result of the shock
b. The aggregate demand curve move to the left as a result of the shock
c. The aggregate demand curve move back toward its pre-shock position as a result of these policies
D. A and C

16. The tax cuts of 2001 and 2003 that came in the form of tax rebate checks are good examples of ______ fiscal policy
a. Non-discretionary
b. Non-conjunctive
C. Discretionary
d. Universally discredited

17. The tax cuts of 2001 and 2003 that came in the form of tax rebate checks are good examples of
A. Fiscal policy
b. Monetary policy
c. The fallacy of composition
d. The fallacy that causation and correlation are the same

18. Using the aggregate supply - aggregate demand model, the tax cuts of 2001 and 2003 that came in the form of tax rebate checks would cause
A. Aggregate demand to shift to the right
b. Aggregate supply to shift to the right
c. Aggregate demand to shift to the left
d. Aggregate supply to shift to the left
19. Short-run expansionary Fiscal Policy would result in
A. Aggregate demand moving to the right
b. Aggregate supply moving to the right
c. Aggregate demand moving to the left
d. Aggregate supply moving to the left

20. Short-run contractionary Fiscal Policy would result in
a. Aggregate demand moving to the right
b. Aggregate supply moving to the right
C. Aggregate demand moving to the left
d. Aggregate supply moving to the left

21. Which of the following would qualify as an aggregate supply shock?
A. An unexpected increase in oil prices
b. seasonally expected increase in oil prices
c. An unexpected reduction in consumer confidence
d. An anticipated tax cut

22. Which of the following would qualify as an aggregate supply shock?
A. An unexpected decrease in oil prices
b. A seasonally expected decrease in oil prices
c. An unexpected surge in consumer confidence
d. An anticipated tax cut

23. Which of the following would qualify as an aggregate demand shock?
a. An unexpected increase in oil prices
b. A seasonally expected increase in oil prices
C. An unexpected reduction in consumer confidence
d. An anticipated tax cut
24. The mistiming problem with discretionary fiscal policy results from 
a. A delay in recognizing a recession  
b. A delay in agreeing on a solution to a recession  
c. A delay in getting a particular plan implemented with the money getting into peoples' hands  
D. All of the above

25. Which of the following would be described as the administrative lag?  
a. The time required to know that there is a recession  
B. The time required to agree upon a policy remedy for a recession  
c. The time required to get a particular plan implemented with the money put into peoples' hands  
d. The time required to get the people to spend the money returned to them through tax cuts

26. Which of the following would be described as the recognition lag?  
A. The time required to know that there is a recession  
b. The time required to agree upon a policy remedy for a recession  
c. The time required to get a particular plan implemented with the money getting into peoples' hands  
d. The time required by a President to sign legislation

27. Which of the following would be described as the operational lag?  
a. The time required to know that there is a recession  
b. The time required to agree upon a policy remedy for a recession  
C. The time required to get a particular plan implemented with the money getting into peoples' hands  
d. Both A and B

28. A political problem with discretionary fiscal policy is the 
a. Contractionary bias  
b. Big-state bias  
C. Expansionary bias  
d. Overreaction bias
29. A political problem with discretionary fiscal policy is the 
   A. Political business cycle  
   b. Split control of the legislative and judicial branches of government 
   c. Business cycle 
   d. Federal Reserve

30. Generally speaking the last two years of a President's term are associated with 
   A. Higher growth than the first two years 
   b. The same growth as the first two years 
   c. Lower growth than the first two years 
   d. Higher unemployment than the first two years

31. A recent example of the administrative lag came in the form of 
   A. It taking several months in 2003 for Congress to agree on a specific tax cut package even after they had agreed on having one 
   b. It taking only a month or two from the passage of the 2003 tax cut to the issuance to rebate checks 
   c. It taking until Summer 2003 to recognize that the recession of 2001 ended in December of 2001 
   d. It taking very little time for the effects of the 2003 rebate checks to have an effect on the economy

32. A recent example of the recognition lag came in the form of 
   a. It taking several months in 2003 for Congress to agree on a tax cut package even after they had agreed on having one 
   b. It taking only a month or two from the passage of the 2003 tax cut to the issuance to rebate checks 
   C. It taking until Fall 2001 to recognize that the recession of 2001 had started in January 2001 
   d. It taking very little time for the effects of the 2003 rebate checks to have an effect on the economy
33. The operational lag seemingly did not apply in the case of the 2003 tax cut because
   a. It took several months in 2003 for Congress to agree on a tax cut package even after they had agreed on having one
   B. It took only a month or two from the passage of the 2003 tax cut to the issuance to rebate checks
   c. It took until Fall 2001 to recognize that the recession of 2001 had started January 2001
   d. It took until Summer 2003 to recognize that the recession of 2001 ended in December of 2001

34. Which of the following would be an example of non-discretionary fiscal policy at work in 2001 through 2003
   a. The tax cuts of 2001 and 2003
   b. The 12 separate cuts in interest rates beginning in January 2001
   C. The reduction in tax liabilities attributable to stock market losses in 2001 and 2002
   d. Increases in defense spending

35. Which of the following would be an example of non-discretionary fiscal policy at work in 2001 through 2003
   a. The tax cuts of 2001 and 2003
   b. The 12 separate cuts in interest rates beginning in January 2001
   C. The increase in unemployment compensation payments in 2001 through 2003
   d. The increases in defense spending

36. Which of the following would be an example of discretionary fiscal policy at work in 2001 through 2003
   A. The tax cuts of 2001 and 2003
   b. The 12 separate cuts in interest rates beginning in January 2001
   c. The increase in unemployment compensation payments in 2001 through 2003
   d. The increases in Medicare spending attributable to the aging population
37. The 2003 tax rebate is an example of
   a. Nondiscretionary fiscal policy
   b. Monetary policy
   C. Discretionary fiscal policy
   d. Nondiscretionary trade policy

38. In terms of timing, the 2003 tax rebate
   a. Clearly arrived too late
   B. Was enacted and implemented in a relatively short period of time
   c. Was extremely poor in that it rapidly overheated the economy at the wrong time
   d. Was perfect because it unambiguously ended a recession

39. In terms of timing, the 2003 rebate was
   A. Proposed at a time the economy needed a boost
   b. Proposed at a time the economy was doing fine without it
   c. Exactly the wrong policy in that the economy was on the verge of overheating
   d. Unfortunate in that it stalled the economy

40. Tax rebates such as those approved in 2003 might be
   a. Spent on consumption goods
   b. Saved in the form of increased bank account balances
   c. Used to pay down existing consumer debt
   D. All of the above

41. Real economic growth during the first two years of President George W. Bush's second term was
   a. Approximately 8.7% per year
   b. Higher than real economic growth during the first two years of President Bill Clinton's second term
   C. Approximately 3.2% per year
   d. Negative because of the 2001 recession
42. Real economic growth during the first two years of President George W. Bush's second term was
   a. Approximately 8.7% per year
   B. Lower than real economic growth during the first two years of President Bill Clinton's second term
   c. Approximately 6.4% per year
   d. Negative because of the 2001 recession