Chapter 10

Federal Deficits, Surpluses, and the National Debt

Multiple Choice Questions

1. The pattern of the 1930's through the middle 1990's was
   A. Deficits interspersed with a few years of surplus
   b. Deficits each and every year
   c. Surpluses each and every year
   d. Surpluses interspersed with a few years of deficits

2. Prior to 1950, for most of the years in which there were deficits we were also
   a. Under Republican Presidents
   B. At war
   c. Under Democratic Presidents
   d. In financial panics or depressions

3. During the record deficits of the 1980's, the off-budget elements were
   a. Also in record deficit territory
   B. In surplus
   c. In deficit, but only barely
   d. Fluctuating annually between surpluses and deficits

4. The deficit that showed the biggest increase after the events of 2001 through 2004 (the first
   and second Bush tax cuts, the recession of 2001 and the war of terrorism) was the
   A. On-budget side
   b. Off-budget side
   c. Must-budget side
   d. Far side
5. Which of the following programs is off-budget?
   a. Interest on the debt
   b. Defense
   C. Social Security
   d. Student loans

6. Which of the following programs is off-budget?
   a. Interest on the debt
   b. Defense
   C. Medicare
   d. Student loans

7. Which of the following programs is on-budget?
   a. The post office
   b. Medicare
   c. Social Security
   D. Student loans

8. A budget deficit is
   a. The amount by which revenues exceed expenditures
   b. The total amount owed by the federal government
   c. The amount by which revenues fall short of projections
   D. The amount by which expenditures exceed revenues

9. The national debt is
   a. The amount by which revenues exceed expenditures
   B. The total amount owed by the federal government
   c. The amount by which revenues fall short of projections
   d. The amount by which expenditures exceed revenues
10. A budget surplus is
A. The amount by which revenues exceed expenditures
b. The total amount owed by the federal government
c. The amount by which revenues fall short of projections
d. The amount by which expenditures exceed revenues

11. In inflation adjusted terms, the largest deficits in the twentieth century
a. Resulted from the Vietnam War
B. Resulted from World War II
c. Were caused by huge tax cuts in the 1980's
d. Resulted from spending increases in the 1990's

12. As a percentage of GDP, the largest deficits in the twentieth century
a. Resulted from the Vietnam War
B. Resulted from World War II
c. Were caused by huge tax cuts in the 1980's
d. Resulted from spending increases in the 1990's

13. A Peace dividend
A. Results from the reduction in defense spending as a war is concluded
b. Results from making the defeated enemy pay war reparations
c. Never materialized after the Cold War
d. Never materialized after World War II

14. Many economists look at the Federal Budget and see that it should be broken into
a. An operating budget and a defense budget
b. A capital budget and an everyday budget
C. An operating budget and a capital budget
d. A defense budget and a non-defense budget
15. Functional finance is that part of the deficit that is attributable to
   a. Specific programs (like Medicare)
   b. The exponential increase in interest rates
   c. Spending programs or tax cuts passed to stimulate an economy in recession
   d. Fighting the war on terror

16. Most economists would place the costs of food for soldiers in the
   A. Operating budget
   b. Entitlement budget
   c. Capital budget
   d. Food stamp budget

17. Most economists would place the costs of a new public transit system in the
   a. Operating budget
   B. Capital budget
   c. Social budget
   d. Smart budget

18. In which of the decades below was the inflation-adjusted deficit largest
   A. The 1940s
   b. The 1950s
   c. The 1960s
   d. The 1970s

19. In which of the decades below was the inflation-adjusted deficit largest
   A. The 1940s
   b. The 1950s
   c. The 1960s
   d. The 1980s
20. In which of the decades below was the inflation-adjusted deficit largest
a. The 1950s
b. The 1960s
c. The 1970s
D. The 1980s

21. In which of the decades below was the deficit as a percentage of GDP the largest
A. The 1940s
b. The 1950s
c. The 1960s
d. The 1970s

22. In which of the decades below was the deficit as a percentage of GDP the largest
a. The 1950s
b. The 1960s
c. The 1970s
D. The 1980s

23. In which of the time periods below was the surplus as a percentage of GDP the largest
A. Late 1940s
b. Late 1960s
c. Late 1980s
d. Late 1990s

24. An argument has been made that the shrinking deficits of the 1990s were attributable to the
a. Cold War
b. Gulf War
c. Bailout of the Savings and Loans
D. Peace dividend that resulted from the end of the Cold War
25. As a percentage of GDP the national debt consistently
a. Rose from 1950 to 1975
b. Rose from 1950 to 1960 but not thereafter
C. Fell from 1950 to 1975
d. Fell from 1950 until 1990

26. As a percentage of GDP the national debt consistently
A. Rose from 1975 to 1995
b. Rose from 1950 to 1960 but not thereafter
c. Rose from 1950 to 1975
d. Fell from 1950 until 1990

27. Compared to Italy and Japan in recent years, the debt as a percentage of GDP in the US is
a. Substantially greater
b. Slightly smaller
C. Substantially smaller
d. Roughly equal

28. Compared to the Canada and Germany in recent years, the debt as a percentage of GDP in the US is
a. Substantially greater
b. Substantially smaller
C. Slightly smaller
d. Negligible

29. The percentage of the federal debt owned by trust funds has
A. Increased consistently over the past 20 years
b. Decreased consistently over the past 20 years
c. Remained remarkable constant over the past 20 years
d. Increased in good times and decreased in bad times
30. An increasing portion of the U.S. national debt is held by
a. The public
b. The Federal Reserve
C. Government trust funds
d. A and B

31. A decreasing portion of the U.S. national debt is held by
A. The public
b. The Federal Reserve
c. Government trust funds
d. A and B

32. Which of the following countries increased its holding of U.S. government debt by the
greatest percentage between 1995 and 2005?
a. Canada
b. Saudi Arabia
C. China
d. The United Kingdom

33. Which of the following countries increased its holding of U.S. government debt by the
greatest percentage between 1995 and 2005?
a. Canada
b. Saudi Arabia
C. Japan
d. The United Kingdom

34. Which of the following counties' citizens and banks became a significant holder of U.S.
government debt during the last decade?
a. Canada
b. Saudi Arabia
C. China
d. The United Kingdom
35. Projections of the deficit, surplus and debt picture are
a. Usually accurate as many as thirty years out
b. Rarely accurate even year to year
c. Highly sensitive to changes in the economy
D. B and C

36. Generational accounting refers to
a. The wealth of the old versus the wealth of the young
B. The net tax rate of each generation given the taxes they will pay and the benefits they will receive
c. The tax rates paid by each generation
d. The benefits received by each generation

37. A Balanced Budget Amendment would be
A. Procyclical
b. Countercyclical
c. Homocyclical
d. Heterocyclical

38. On the notion of the Balanced Budget Amendment, economists are
a. Apathetic
b. Unanimously in favor of a rigid requirement of budget balance
c. Unanimously against a rigid requirement of budget balance
D. Mostly against a rigid requirement of budget balance

39. The argument that a Balanced Budget Amendment would be "pro-cyclical" means that it would cause
a. Bad times to be better than they would otherwise be
b. Good times to be worse than they would otherwise be
C. Bad times to be worse than they would otherwise be
d. A and B
40. Which of the following events occurred during the 1996-2000 time-frame and had an important impact on the deficit/surplus projections
a. A dramatic increase in the price of oil
b. A dramatic increase in the rate of inflation
c. A dramatic increase in the rate of unemployment
D. A dramatic increase in the value of most major stock markets

41. Which of the following events occurred during the 2000 to 2003 time-frame and had an important impact on the deficit/surplus projections
A. The recession of 2001
b. The increase in interest rates from 2001 to 2003
c. The increase in inflation rates from 2000 to 2002
d. The decrease in unemployment rates from 2002 to 2003

42. Which of the following events occurred during the 2000 to 2005 time-frame and had an important impact on the deficit/surplus projections
A. The tax cuts of 2001 and 2003
b. The increase in interest rates from 2001 to 2003
c. The increase in inflation rates from 2000 to 2002
d. The decrease in unemployment rates from 2002 to 2003

43. Which of the following events occurred during the 2000 to 2005 time-frame and had an important impact on the deficit/surplus projections
A. The steep decline in taxable capital gains that resulted from declines in the Stock Market from March 2000 to the end of 2002
b. The increase in interest rates from 2001 to 2003
c. The increase in inflation rates from 2000 to 2002
d. The decrease in unemployment rates from 2002 to 2003
44. The projections by the Congressional Budget Office and the Office of Management and Budget for deficits are
a. Usually right on target even ten years out into the future
b. Typically off target even though most of what affects the deficit is easily forecast
C. Typically off target because most of what affects the deficit is not easily forecast
d. Always too low suggesting that both are using wishful thinking rather than analysis

45. The budget deficit/surplus projections for 2005 that were made in 2001 were wrong by
a. Less than a billion
b. Several trillion
C. Several hundred billion
d. Several hundred trillion

46. The budget deficit/surplus projections for 2005 that were made in 2001 were wrong because there was
A. An unanticipated tax cut
b. An unanticipated increase in interest rates
c. An anticipated increase in immigration
d. An anticipated increase in defense spending

47. The budget deficit/surplus projections for 2003 that were made in 2000 were wrong because there was
A. An unanticipated recession
b. An unanticipated increase in interest rates
c. An anticipated increase in immigration
d. An anticipated increase in defense spending

48. The budget deficit/surplus projections for 2005 that were made in 2000 were wrong because there was
A. An unanticipated increase in defense spending
b. An unanticipated increase in interest rates
c. An anticipated increase in immigration
d. An anticipated increase in defense spending
49. The budget deficit/surplus projections for 2005 that were made in 2001 were wrong because there was
A. An unanticipated increase in homeland security spending
b. An unanticipated increase in interest rates
c. An anticipated increase in immigration
d. An anticipated increase in defense spending

50. The budget deficit/surplus projections for 2005 that were made in 2001 were wrong because there was
A. An unanticipated increase in war-related spending
b. An unanticipated increase in interest rates
c. An anticipated increase in immigration
d. An anticipated increase in defense spending

51. In 2005-2006, the magnitude of the federal budget deficit decreased because
a. Government spending decreased precipitously
b. Government spending increased precipitously
c. Income tax rates were significantly increased across the board
D. Growth in income increased tax receipts by more than government spending increased

52. If monetary policy is unchanged, the outstanding national debt will increase whenever
a. Government tax receipts exceed government spending
b. There is a surplus in the federal budget
c. Social Security tax receipts exceed Social Security benefit payments
D. Government spending exceeds government tax receipts

53. If monetary policy is unchanged, the outstanding national debt will increase whenever
a. Government tax receipts exceed government spending
B. There is a deficit in the federal budget
c. Social Security tax receipts exceed Social Security benefit payments
d. There is a surplus in the federal budget