

Chapter 14 Test, Form A

Taxes and Government Spending

DIRECTIONS: Matching Match each item with the correct statement below.

- | | |
|--|-------------------------------------|
| _____ 1. the final burden of a tax | A. alternative minimum tax |
| _____ 2. proportional tax on individual income after a specified threshold has been reached | B. capital gains |
| _____ 3. tax on the value added at every stage of the production process | C. earmarks, or pork |
| _____ 4. personal income tax rate that applies to cases in which taxes would otherwise fall below a certain level | D. excise tax |
| _____ 5. profits from the sale of an asset held for 12 months or longer | E. flat tax |
| _____ 6. general revenue tax levied on the manufacture or sale of selected items | F. incidence of a tax |
| _____ 7. line item budget expenditure that circumvents normal budget building processes and procedures and benefits a small number of people or businesses | G. intergovernmental revenue |
| _____ 8. payments for which the government receives neither goods nor services in return | H. national debt |
| _____ 9. the total amount borrowed from investors to finance the government's deficit spending | I. transfer payments |
| _____ 10. funds that one level of government receives from another level of government | J. value-added tax (VAT) |

DIRECTIONS: Multiple Choice Indicate the answer choice that best completes the statement or answers the question.

- _____ 11. What is the main purpose of a sin tax?
- A.** revenue generation
 - B.** behavior adjustment
 - C.** income redistribution
 - D.** resource allocation
- _____ 12. Which of the following best identifies the incidence of the individual income tax?
- A.** frequency
 - B.** workers
 - C.** corporation
 - D.** wages

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- _____ 13. An economist might argue that a progressive income tax is effective because it is _____ .
- A. equitable
 - B. simple
 - C. beneficial
 - D. profitable
- _____ 14. Which of the following is most like a national sales tax?
- A. an excise tax
 - B. a sin tax
 - C. a value-added tax (VAT)
 - D. none of the above
- _____ 15. Which statement is most accurate?
- A. The debt ceiling is a requirement that new spending proposals or tax cuts must be offset by reductions elsewhere.
 - B. The debt ceiling authorizes spending on new entitlement programs.
 - C. The debt ceiling permits borrowing for expenditures that have already been authorized by Congress and the president.
 - D. The debt ceiling is the total amount borrowed from investors to finance the government's deficit spending.
- _____ 16. The tax code is indexed to compensate for _____ .
- A. inflation
 - B. different levels of income
 - C. budget deficits
 - D. all of the above
- _____ 17. Which of the following is the single largest source of federal revenue?
- A. individual income tax
 - B. corporate income tax
 - C. borrowing
 - D. Medicare payroll taxes
- _____ 18. Which of the following is the single largest federal expenditure?
- A. national defense
 - B. Social Security
 - C. interest
 - D. Medicare
- _____ 19. "The most important source of state government revenue." "Primarily transferred from federal government to state governments." "The most important source of local government revenue." All of these statements are true of _____ .
- A. taxes
 - B. income tax revenue
 - C. transfer payments
 - D. intergovernmental revenue
- _____ 20. Elementary schools, police departments, and electrical service are typically paid for by _____ .
- A. the federal government
 - B. state governments
 - C. local government
 - D. natural monopolies

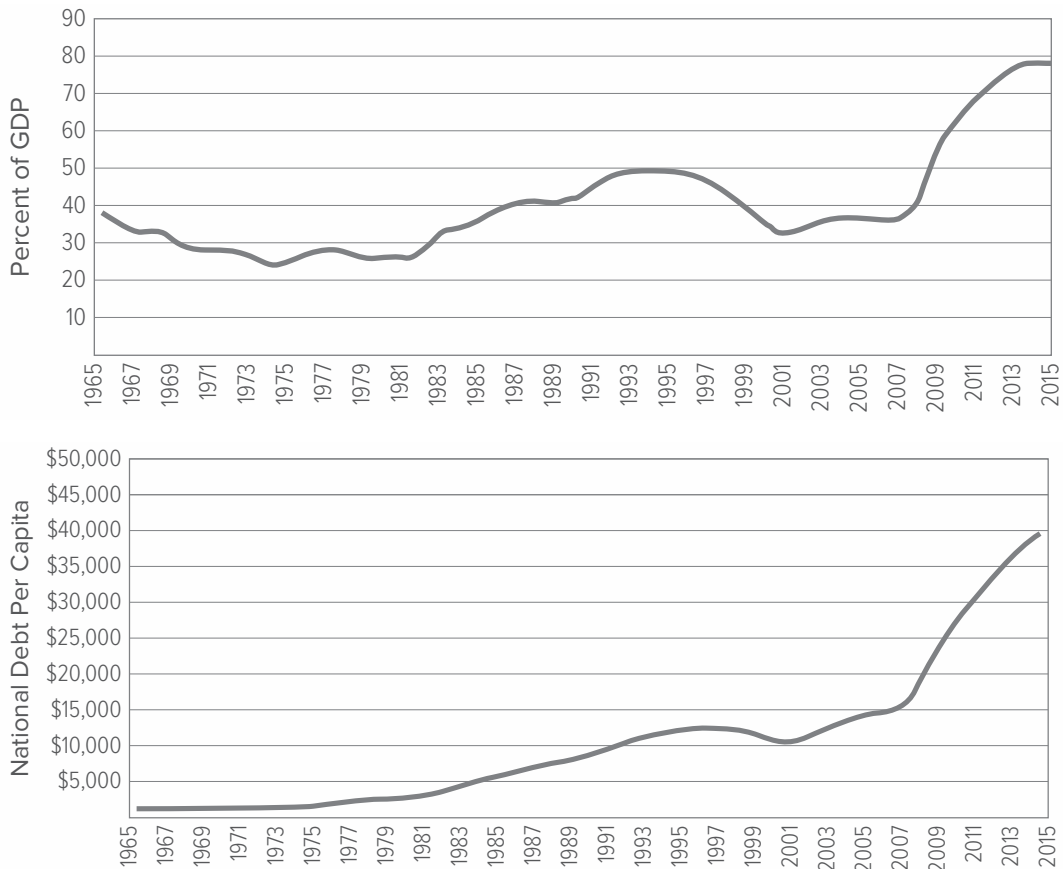
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DIRECTIONS: Essay Write a short essay in response to each item.

21. Evaluate the flat tax in terms of the three criteria for effective taxes.

Figure 14.7 Two Views of the National Debt



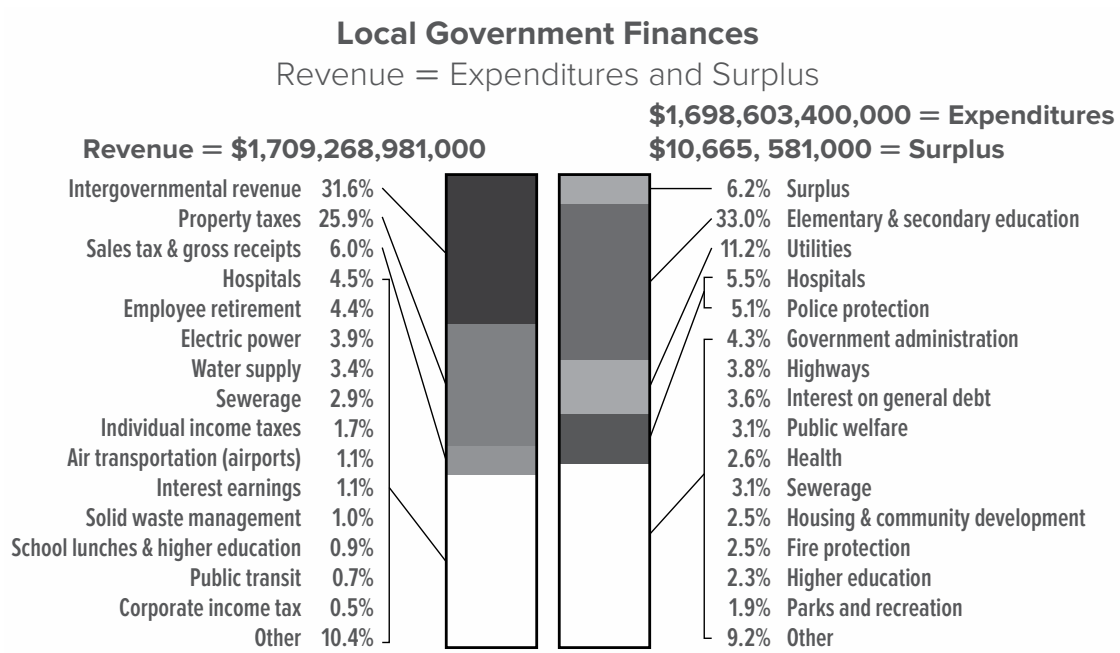
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22. Consider the two line graphs above. Choose the view that you think is more useful as a basis for economic policymaking, and construct an argument in favor of your view.

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23. Should the United States make eliminating its national debt a top priority? Explain the reason for your position.



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24. Compare and contrast the information in the bar graph with the situation in your community.
