

# Chapter 15 Test, Form A

## Fiscal Policy

**DIRECTIONS: Matching** Match each item with its description.

- |   |                                 |
|---|---------------------------------|
| _____ 1. Branch of economics that deals with the economy as a whole   | <b>A.</b> multiplier            |
| _____ 2. The total value of all goods and services wanted at different price levels                                       | <b>B.</b> accelerator           |
| _____ 3. The total value of all goods and services firms might produce in a given year                                    | <b>C.</b> entitlement           |
| _____ 4. A method of stimulating the economy by increasing production   | <b>D.</b> automatic stabilizers |
| _____ 5. A representation of the possible relationship between tax rates and tax revenues                                 | <b>E.</b> supply-side policies  |
| _____ 6. The weakening of laws that govern the oversight of business activities   | <b>F.</b> deregulation          |
| _____ 7. A social program that provides benefits to eligible participants   | <b>G.</b> Laffer curve          |
| _____ 8. A change in overall spending caused by a change in investment spending   | <b>H.</b> aggregate supply      |
| _____ 9. A change in investment spending caused by a change in overall spending   | <b>I.</b> macroeconomics        |
| _____ 10. A program that without additional Congressional action provides benefits to offset a change in people's incomes | <b>J.</b> aggregate demand      |

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

- \_\_\_\_\_ 11. The concept of fiscal policies are derived from \_\_\_\_\_.
- |                               |                                 |
|-------------------------------|---------------------------------|
| <b>A.</b> Reaganomics         | <b>C.</b> supply-side economics |
| <b>B.</b> Keynesian economics | <b>D.</b> demand-side economics |
- \_\_\_\_\_ 12. In the model  $GDP = C + I + G + (X - M)$ , "I" stands for \_\_\_\_\_.
- |                   |                             |
|-------------------|-----------------------------|
| <b>A.</b> input   | <b>C.</b> investment sector |
| <b>B.</b> imports | <b>D.</b> interest rate     |

## Chapter 15 Test, Form A *cont.*

### Fiscal Policy

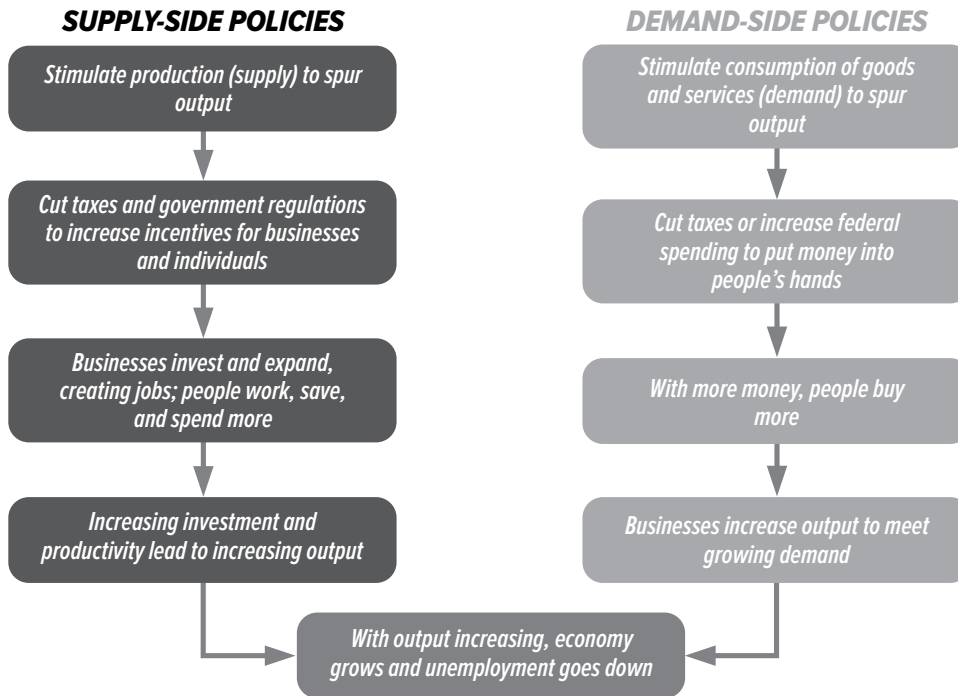
- \_\_\_\_\_ 13. Keynesian economic policies are designed to lower unemployment by \_\_\_\_\_.
- A. stimulating aggregate supply
  - B. stimulating aggregate demand
  - C. reducing aggregate demand
  - D. creating government jobs
- \_\_\_\_\_ 14. According to Keynes, which sector was most responsible for the instability that led to the Great Depression?
- A. investment
  - B. consumer
  - C. foreign
  - D. government
- \_\_\_\_\_ 15. Advocates of supply-side economics argue that spending by the federal government \_\_\_\_\_.
- A. helps stimulates economic growth
  - B. has no effect on economic growth
  - C. slows economic growth
  - D. can crash the economy completely
- \_\_\_\_\_ 16. President Reagan's efforts to make the federal government smaller were \_\_\_\_\_.
- A. a big success, but had no effect on the economy
  - B. a big success, but lowered revenue
  - C. unsuccessful, but had no effect on the economy
  - D. unsuccessful, but lower tax rates increased personal income
- \_\_\_\_\_ 17. The theory of the Laffer curve was used to argue for \_\_\_\_\_.
- A. cutting income tax rates
  - B. increasing government revenue
  - C. raising income tax rates
  - D. decreasing aggregate demand
- \_\_\_\_\_ 18. Supply-siders generally favor \_\_\_\_\_.
- A. tax increases
  - B. decreases in demand
  - C. deregulation
  - D. government intervention
- \_\_\_\_\_ 19. The concept of aggregate supply assumes that \_\_\_\_\_.
- A. the money supply and price levels are fixed
  - B. the money supply is fixed but price levels fluctuate
  - C. the money supply and price levels fluctuate
  - D. the money supply fluctuates but price levels are fixed
- \_\_\_\_\_ 20. The most common way for governments to cover budget deficits is by \_\_\_\_\_.
- A. raising taxes
  - B. printing money
  - C. issuing debt
  - D. defaulting

## Chapter 15 Test, Form A *cont.*

### Fiscal Policy

**DIRECTIONS: Essay** Write a short essay for each of the following questions.

**Figure 15.2** Comparing Supply-Side and Demand-Side Policies



- 21.** Use the diagram to write a brief essay explaining the steps in supply-side or demand-side policies. Explain the goals of the policy and why advocates of the policy believe it will help the economy. Use at least one real-world example of how the policy affects people or businesses.
- 22.** Write a short essay that argues for or against deregulation. Explain why you think regulation helps or hinders economic growth. Give specific examples to support your argument.