

Economics 1B Quiz #2

1. The Laffer curve shows the relationship between:
  - a. the tax rate and national income
  - b. tax revenue and national income
  - c. the tax rate and tax revenue
  - d. the tax rate and government spending
2. The shape of the Laffer curve implies:
  - a. as national income rises, tax revenue rises
  - b. as national income rises, tax revenue falls
  - c. as national income rises, tax revenues do not change
  - d. as national income rises, tax revenues may rise, fall or stay the same
3. An empirical implication of the Laffer curve is that:
  - a. to increase tax revenues, a government should always increase the tax rate
  - b. to increase tax revenues, a government should always lower the tax rate
  - c. for most countries, in order to increase tax revenues the government should increase the tax rate
  - d. in reality, a government cannot control the level of tax revenue it collects.
4. The reason why the implementation of tax cuts in the early 1980s led to massive budget deficits was because:
  - a. tax cuts can never lead to an increase in tax revenues
  - b. the policy makers were mistaken about where on Laffer curve the United States was located
  - c. the Laffer curve is a theoretical concept that has been shown to be empirically invalid
  - d. it was not the decision to cut taxes that was flawed, but rather the magnitude of the cut
5. In general taxes provide:
  - a. a negative incentive for increased production
  - b. a positive incentive for increased production
  - c. they do not affect production decisions
  - d. only affect micro-level markets, so they are not important in macro analysis
6. Transfer payments:
  - a. do not effect the macro economy
  - b. have an identical effect as taxes
  - c. have a smaller effect than taxes
  - d. have a larger effect than taxes
7. Relative to countries with lower rates of transfer payments, countries with higher rates of transfer payments:
  - a. grow faster
  - b. grow slower
  - c. grow at the same rate
  - d. the data is inconclusive
8. Since World War Two, United States government's budget has been:
  - a. in deficit
  - b. in surplus
  - c. balanced
  - d. through alternating periods of deficit and surplus
9. Government debt is harmful in the United States today for all of the following reasons EXCEPT:
  - a. it crowds out private investment
  - b. it increases the interest rate the government must pay to foreign nations
  - c. it may lead to inflation
  - d. the government will not be able to meet its operating costs
10. Social Welfare is best defined as:
  - a.  $CS + PS - TR$
  - b.  $CS - PS + TR$
  - c.  $CS - PS - TR$
  - d.  $CS + PS + TR$

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11. Which of the following is not a property of money?
  - a. store of value
  - b. unit of account
  - c. ranking of worth
  - d. unit of account
12. Which of the following is in M2 but not M1?
  - a. Savings accounts
  - b. currency
  - c. checking accounts
  - d. traveler's checks
13. Which of the following is NOT a tool that the Federal Reserve Bank can utilize to affect the money supply?
  - a. open market operations
  - b. changing the discount rate
  - c. changing reserve requirements
  - d. printing new money
14. Relative to the rest of the world, the United States government has:
  - a. followed trends relating to their budget deficits
  - b. gone against trends relating to their budget deficits
  - c. followed trends during some periods but diverged widely during others
  - d. has followed no discernable trend with regard to their budget
15. The difference between funded vs. "Pay as you go" social security schemes is:
  - a. funded schemes always require you to pay more
  - b. funded schemes always require you to pay less
  - c. in funded schemes your contributions are held for you until you retire and begin consuming them, whereas in a "pay as you go" contributions by working people today pay for the benefits of elderly people today
  - d. in "pay as you go" schemes your contributions are held for you until you retire and begin consuming them, whereas in a funded scheme contributions by working people today pay for the benefits of elderly people today
16. The recent political debate concerning surpluses has generally centered around:
  - a. the magnitude of future surpluses
  - b. whether or not to use surpluses to fund Social Security
  - c. whether or not to use surpluses to pay off the national debt
  - d. whether to use surpluses to cut taxes or increase spending on social programs
17. All of the following are arguments for using the surpluses primarily to pay off the debt EXCEPT:
  - a. the US government is in danger of defaulting on its debt
  - b. additional stimulation of the economy could lead to inflation
  - c. it is uncertain how long these surpluses will last so committing to tax cuts or spending increases could lead to further debt
  - d. the interest paid on debt crowds out other productive activities
18. The Brazilian social security crisis has been caused by all of the following EXCEPT:
  - a. corruption
  - b. legal loopholes
  - c. "political myopia"
  - d. foreign intervention
19. Which of the following is a problem that the Brazil and US DO NOT share when seeking to reform social security?
  - a. the large proportion of benefits accruing to people presently in power
  - b. political pressure of interest groups
  - c. public's belief that they are "entitled" to benefits
  - d. cutting benefits is unpopular politically
20. The most common tool the Fed uses to affect the supply is:
  - a. changes in the required reserve ratios
  - b. changes in the discount rate
  - c. open market operations
  - d. printing new money