

Name: \_\_\_\_\_ Date: \_\_\_\_\_

## Macroeconomic Tightrope: The Fiscal Policy Survival Challenge for College Scholars

Scholars calculate multipliers, evaluate Ricardian equivalence, and analyze automatic stabilizers to navigate the complexities of modern sovereign debt and countercyclical interventions.

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**1. An economy is currently operating with a significant recessionary gap. If the marginal propensity to consume (MPC) is 0.8 and the government increases spending by \$200 billion, what is the theoretical total increase in aggregate demand, assuming no crowding out?**

- A. \$250 billion
- B. \$800 billion
- C. \$1 trillion
- D. \$1.2 trillion

**2. According to the Ricardian Equivalence proposition, debt-financed government spending is more effective at stimulating aggregate demand than tax-financed spending because consumers do not anticipate future tax increases.**

- A. True
- B. False

**3. When the government increases borrowing to fund a deficit, it may drive up interest rates, leading to a reduction in private investment. This phenomenon is known as \_\_\_\_\_.**

- A. The Pigou Effect
- B. Crowding Out
- C. The Liquidity Trap
- D. Fiscal Drag

**4. Which of the following acts as an 'automatic stabilizer' in the context of a sudden economic downturn?**

- A. A discretionary infrastructure bill passed by Congress
- B. A temporary reduction in corporate interest rates by the Central Bank
- C. An increase in total unemployment insurance payouts without new legislation
- D. The implementation of a flat tax system across all income brackets

**5. If a government maintains a secondary budget deficit while the economy is at full employment (Potential GDP), this deficit is specifically categorized as a \_\_\_\_\_ deficit.**

- A. Cyclical
- B. Operational
- C. Structural
- D. Primary

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**6. In a closed economy with a balanced budget, the 'Balanced Budget Multiplier' is equal to 1, meaning an equal increase in taxes and spending will increase GDP by the same amount as the initial spending increase.**

- A. True
- B. False

**7. During a period of high inflation and over-employment (an inflationary gap), which fiscal policy stance would a Keynesian economist most likely recommend?**

- A. Increasing the money supply to lower interest rates
- B. Increasing transfer payments to support purchasing power
- C. Reducing government procurement and increasing tax rates
- D. Implementing supply-side deregulation to increase productivity

**8. The time it takes for policymakers to recognize that an economic gap exists and actually implement a fiscal change is known as the \_\_\_\_\_ lag.**

- A. Recognition
- B. Implementation
- C. Inside
- D. Impact

**9. Discretionary fiscal policy refers exclusively to the automatic changes in tax receipts and welfare spending that occur as the economy enters a recession.**

- A. True
- B. False

**10. Which curve illustrates the relationship between tax rates and total tax revenue, suggesting that beyond a certain point, higher rates may actually decrease revenue?**

- A. The Lorenz Curve
- B. The Laffer Curve
- C. The Phillips Curve
- D. The IS-LM Curve