

Name: _____ Date: _____

Will the Budget Balance? 11th Grade Fiscal Policy Quiz

Examine 10 scenarios analyzing the structural deficit and the Laffer Curve's impact on revenue beyond simple tax rate adjustments.

1. If the federal government implements a contractionary fiscal policy during a period of high inflation, which of the following combinations is most likely?

- A. Increasing subsidies for renewable energy and lowering corporate tax rates.
- B. Decreasing infrastructure spending and increasing personal income tax rates.
- C. Lowering interest rates and increasing the money supply.
- D. Increasing transfer payments like Social Security and unemployment benefits.

2. When tax revenues are consistently lower than government expenditures over a fiscal year, the resulting annual shortfall is known as a _____.

- A. National Debt
- B. Trade Deficit
- C. Budget Deficit
- D. Capital Surplus

3. Automatic stabilizers, such as progressive income taxes and unemployment insurance, require new legislation from Congress to take effect during a recession.

- A. True
- B. False

4. Which economic theory suggests that reducing tax rates can actually increase total tax revenue by incentivizing work and investment?

- A. Keynesian Economics
- B. The Laffer Curve
- C. Marxist Theory
- D. The Multiplier Effect

5. The 'crowding-out effect' occurs when high levels of government borrowing lead to _____.

- A. Lower interest rates for consumers
- B. Increased private sector investment
- C. Higher interest rates and reduced private investment
- D. A decrease in the national debt

6. Discretionary fiscal policy involves intentional changes to the law regarding taxing and spending by the government.

- A. True
- B. False

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7. If the marginal propensity to consume (MPC) is 0.8, what is the value of the spending multiplier?

- A. 2
- B. 4
- C. 5
- D. 10

8. A tax that takes a larger percentage of income from high-income earners than from low-income earners is described as _____.

- A. Regressive
- B. Proportional
- C. Progressive
- D. Flat

9. Expansionary fiscal policy is most effective at closing an 'inflationary gap' in the business cycle.

- A. True
- B. False

10. Which of these is a major criticism of using fiscal policy to manage the economy?

- A. It works too quickly and causes market shocks.
- B. Legislative 'lags' mean the policy might take effect after the economic problem has changed.
- C. It is controlled entirely by the Federal Reserve, which lacks transparency.
- D. It only affects the wealthy and has no impact on the middle class.