

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

## Answer Key: Taxing Times and Spending Crimes: 7th Grade Economy Boss

Aggregate demand, fiscal multipliers, and budget deficits—essential tools for managing a country's financial health during an interactive classroom review.

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**1. A nation is experiencing high inflation due to an 'overheated' economy. Which contractionary fiscal policy would a government most likely implement to cool down the market?**

**Answer:** C) Reducing government spending on new highway projects.

Contractionary fiscal policy involves decreasing government spending or increasing taxes to reduce the total demand in the economy and slow down inflation.

**2. When a government purposefully spends more money on public works than it collects in tax revenue during a single year, it is running a \_\_\_\_\_.**

**Answer:** B) Budget Deficit

A budget deficit occurs when annual outlays (spending) exceed receipts (income/taxes), often used as an expansionary tool to jumpstart growth.

**3. Expansionary fiscal policy is most effective when a country is experiencing a period of rapid economic growth and low unemployment.**

**Answer:** B) False

False. Expansionary policy is used during recessions or troughs to stimulate a sluggish economy; using it during rapid growth could lead to dangerous inflation.

**4. Consider the 'Multiplier Effect.' Why might \$1 billion in government spending on education have a larger impact on the economy than a \$1 billion tax cut for the wealthy?**

**Answer:** A) Wealthy citizens are more likely to save the extra money rather than spend it immediately.

Direct government spending enters the economy immediately, whereas tax cuts depend on citizens' marginal propensity to consume; if they save the money, the stimulus effect is reduced.

**5. The theory that lower tax rates for businesses will eventually benefit everyone by encouraging production and investment is often called \_\_\_\_\_ economics.**

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

**Answer:** C) Supply-side

Supply-side economics focuses on influencing the economy by increasing the supply of goods and services through tax cuts and deregulation.

**6. Which of these scenarios represents a 'Transfer Payment' by the government, often used as a safety net during economic shifts?**

**Answer:** B) Providing unemployment insurance checks to laid-off factory workers.

Transfer payments are redistributions of income where the government provides money to individuals without receiving a good or service in return.

**7. Changing interest rates and controlling the money supply are the two primary tools of fiscal policy.**

**Answer:** B) False

False. Those are the tools of 'Monetary Policy.' Fiscal policy focuses specifically on taxes and government spending.

**8. In a \_\_\_\_\_ tax system, the percentage of income paid in taxes decreases as the taxpayer's income increases.**

**Answer:** B) Regressive

A regressive tax takes a larger percentage of income from low-income earners than from high-income earners (e.g., sales tax on basic necessities).

**9. What is a potential negative side effect of long-term expansionary fiscal policy funded by borrowing?**

**Answer:** A) It can lead to a 'crowding out' effect where high debt raises interest rates for everyone.

When governments borrow heavily, they compete with private borrowers for loans, which can drive up interest rates and 'crowd out' private investment.

**10. If a government wants to decrease Aggregate Demand, it should increase the tax rate on consumers.**

**Answer:** A) True

True. Higher taxes leave consumers with less 'disposable income,' which leads to lower spending and a decrease in overall demand for goods.