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Dissecting the Deficit: A 10th Grade Fiscal Policy Quiz

Synthesize the complex relationship between the Laffer Curve, automatic stabilizers, and discretionary spending to evaluate macroeconomic stability.

1. If a government is facing a period of 'stagflation' (high inflation and high unemployment), which fiscal policy dilemma typically arises?

- A. Increasing spending stops inflation but hurts employment.
- B. Cutting taxes potentially worsens inflation while attempting to spur growth.
- C. Austerity measures always lead to immediate currency appreciation.
- D. Expansionary policy lowers interest rates directly via the Treasury.

2. The _____ describes the theoretical relationship between tax rates and total tax revenue, suggesting that at a certain point, higher rates actually decrease revenue.

- A. Phillips Curve
- B. Lorenz Curve
- C. Laffer Curve
- D. Kuznets Curve

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

- A. True
- B. False

4. When the government engages in deficit spending, the 'Crowding Out Effect' suggests that:

- A. Increased tax revenue reduces the need for private charity.
- B. High public borrowing raises interest rates, discouraging private investment.
- C. Export demand decreases due to a weaker domestic currency.
- D. Public infrastructure projects prevent private firms from entering the market.

5. In macroeconomic theory, the _____ effect suggests that an initial change in government spending leads to a larger overall increase in National Income.

- A. Substitution
- B. Multiplier
- C. Wealth
- D. Externalities

6. Which specific fiscal action would be characterized as 'Contractionary Fiscal Policy' during a period of rapid economic overheating?

- A. Decreasing the reserve requirement for commercial banks.
- B. Expanding subsidies for first-time homebuyers.

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- C. Reducing government transfers and increasing corporate tax rates.
- D. Issuing new government bonds to fund a nationwide rail project.

7. Expansionary fiscal policy is generally more effective when the Marginal Propensity to Consume (MPC) of the population is high.

- A. True
- B. False

8. Which of the following describes a 'Recognition Lag' in the context of fiscal policy implementation?

- A. The time it takes for a newly passed tax law to influence consumer behavior.
- B. The period during which Congress debates the specific details of a budget.
- C. The difficulty in identifying that a recession has actually begun due to delayed data.
- D. The delay between a project's approval and the actual hiring of workers.

9. A _____ budget occurs when government tax receipts exceed government spending within a specific fiscal year.

- A. Deficit
- B. Balanced
- C. Surplus
- D. External

10. The 'Debt-to-GDP ratio' is a measure used to evaluate a country's ability to pay back its debt, regardless of the absolute dollar amount borrowed.

- A. True
- B. False