

Name: _____ Date: _____

Answer Key: When Taxes Move Markets 11th Grade Fiscal Quiz

Differentiate between expansionary and contractionary tools using real-world scenarios to prepare for unit assessments or high-stakes economics exams.

1. Which government action is a primary tool of expansionary fiscal policy intended to jumpstart a sluggish economy?

Answer: C) Reducing personal income taxes

Reducing taxes leaves more disposable income in the hands of consumers, which encourages spending and shifts the aggregate demand curve to the right.

2. Fiscal policy is primarily managed by a nation's central bank rather than the legislative or executive branches.

Answer: B) False

Fiscal policy is conducted by the government (taxing and spending), whereas the central bank handles monetary policy (interest rates and money supply).

3. When the government spends more money 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 exceed annual receipts; the national debt is the accumulation of these yearly deficits over time.

4. To combat high inflation, which combination of fiscal actions would a government most likely take?

Answer: B) Increase taxes and decrease spending

Contractionary fiscal policy (higher taxes and lower spending) reduces the amount of money in the economy, helping to cool down rising prices.

5. Public works projects, such as building the interstate highway system, are examples of discretionary government spending.

Answer: A) True

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Discretionary spending is funding that lawmakers must explicitly approve through appropriation bills each year, such as infrastructure or defense.

6. Programs like unemployment insurance that automatically increase government spending during a recession without new legislation are called ____.

Answer: B) Automatic stabilizers

Automatic stabilizers are structural features of the budget that offset economic fluctuations without the need for immediate action by policymakers.

7. What is the likely effect on the GDP if a government decides to significantly increase its spending on aerospace research and development?

Answer: C) The GDP will likely increase

Government spending is a component of the GDP formula ($C+I+G+NX$); therefore, increasing 'G' generally leads to an increase in total economic output.

8. The ____ effect describes how an initial increase in government spending leads to a proportionately larger increase in national income.

Answer: C) Multiplier

The multiplier effect occurs because the money spent by the government becomes income for others, who then spend a portion of it, further stimulating the economy.

9. A regressive tax system is one where the tax rate increases as the person's income increases.

Answer: B) False

That describes a progressive tax system. A regressive tax system is one where lower-income individuals pay a higher percentage of their income in taxes compared to high-earners.

10. Which of the following describes 'crowding out' in the context of fiscal policy?

Answer: A) Government borrowing leading to higher interest rates and reduced private investment

Crowding out happens when heavy government borrowing increases demand for loanable funds, driving up interest rates and making it more expensive for businesses to borrow and invest.