Test Bank for Public Finance and Public Policy 8th Gruber

Name:____ Class:_________________________ Date:_____________

TB8 Chapter 1

1. On August 16, 2022, Democratic President Joseph Biden signed into law the Inflation Reduction Act (IRA), a $500 billion law that made changes to federal government policy. The major source of spending in the IRA was new spending and tax breaks to:

a. combat climate change.
b. improve the Affordable Care Act.
c. bolster government pensions.
d. improve education testing results.

ANSWER: a

2. The goal of public finance is to:

a. understand the proper role of corporations in the economy.
b. understand the proper role of the government in the economy.
c. determine the best way to increase the government's role in the economy.
d. determine the best way to decrease the government's role in the economy.

ANSWER: b

3. The goal of public economics, or public finance, is to answer these questions except:

a. Why do governments choose to intervene in the way that they do?
b. How does the government assist for-profit firms in growing the economy?
c. How might the government intervene?
d. When should the government intervene in the economy?

ANSWER: b

4. Government intervenes in a market economy to:

a. create externalities.
b. prevent competition.
c. enhance economic efficiency.
d. achieve perfect income equality.

ANSWER: c

5. Suppose Ky values a burrito at $3.00, but the restaurant is unwilling to sell the burrito for less than $4.00. These values imply that:

a. it is efficient for the restaurant to sell the burrito to Ky for $3.00.
b. it is efficient for the restaurant to sell the burrito to Ky for $4.00.
c. the restaurant needs to produce more efficiently to lower the price of its burritos.
d. it is not efficient for the restaurant to sell the burrito to Ky.

ANSWER: d

6. Suppose Dennie values a burrito at $2.50, but the restaurant is unwilling to sell the burrito for less than $2.00. These values imply that it is efficient for the restaurant to sell a burrito to Dennie for any price that is:

a. greater than or equal to $2.50.

b. greater than or equal to $2.00 and less than or equal to $2.50.

c. less than or equal to $2.00.

d. less than or equal to $2.00 and greater than or equal to $2.50.

ANSWER: b

7. Suppose a student values a textbook at $100, and the publisher is unwilling to sell the textbook at a price lower than $60. What price will lead to an efficient transaction between the student and the publisher?

a. a price of $60 or above

b. any price of $100 or less

c. any price greater than or equal to $60 and less than or equal to $100

d. any price greater than $100

ANSWER: c

8. Suppose a consumer values a certain 65” OLED 4K UHD television at $1,250, and the seller is unwilling to sell the set for less than $1,400. These values imply that:

a. it is efficient for the seller to tell the consumer to wait until there is a sale.

b. it is efficient for the seller to charge any price greater than $1,000 and less than $1,250.

c. it is efficient for the seller to charge any price greater than or equal to $1,250 and less than or equal to $1,400.

d. it is not efficient for a transaction to take place.

ANSWER: d

9. Suppose someone argues that the proper role of government is to increase the size of the pie. Which justification for government intervention in the economy is this person referring to?

a. increasing equality in the economy

b. promoting social justice

c. improving efficiency

d. preventing competition

ANSWER: c

10. Suppose the government proposes a program that will transfer income from one group to another. The goal of this government intervention in the marketplace is BEST characterized as:

a. redistribution.

b. increasing market efficiency.

c. correcting a market failure.

d. achieving competitive equilibrium.

ANSWER: a

11. If the competitive equilibrium does not lead to the efficiency-maximizing outcome, then government intervention:

a. will increase efficiency.

b. will reduce efficiency.

c. may increase or decrease efficiency.

d. will not affect efficiency.

ANSWER: c

12. One reason for government involvement in the economy is the existence of market failures. What are *market failures*?

a. a downturn in a specific market industry

b. a substantial downturn in the market economy due to financial shocks

c. a problem that causes the market economy to deliver an outcome that does not maximize efficiency

d. a drop in Gross Domestic Product (GDP)

ANSWER: c

13. The equity–efficiency trade-off means that obtaining what level of change in equality may also lead to a(n) what change in the so-called size of the pie?

a. no change in equality may also lead to a decrease

b. no change in equality may also lead to an increase

c. a decrease in equality may also lead to a decrease

d. an increase in equality may also lead to an increase

ANSWER: d

14. Suppose the government taxes the rich to distribute money to people with low incomes. Which of these is an example of an efficiency loss?

a. Wealthy people take home less of the money from their jobs because of the tax.

b. Wealthy people don't work as hard because of the tax.

c. People with low incomes are better off because of the redistribution.

d. People with low incomes work just as hard because they still need to make ends meet.

ANSWER: b

15. An intervention in which the government establishes a federally funded health care service for everyone and pays doctors and medical practitioners directly is called:

a. private provision with public financing.

b. restriction or mandate of private sale or purchase.

c. subsidy.

d. public provision.

ANSWER: d

16. Both the federal and state governments collect fees for each gallon of milk sold, and then give the money to the dairy farmers. This is an example of which types of government interventions, respectively speaking?

a. subsidies and revenue

b. taxation and subsidies

c. subsidies and taxation

d. taxation and revenue

ANSWER: b

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17. Which type of government intervention can be used to lower the price for private sales or purchases of underproduced goods?

a. public financing of private provision

b. restrictions or mandates of private sale or purchase

c. taxes

d. subsidies

ANSWER: d

18. Veterans receive health benefits directly through hospitals owned and operated by the Veterans Health Administration. This is an example of:

a. public financing of private provision.

b. restriction or mandate of private sale or purchase.

c. a subsidy.

d. public provision.

ANSWER: d

19. The Medicare insurance program in the United States reimburses hospitals and doctors for providing health care services to older adults. This is an example of:

a. public financing of private provision.

b. restriction or mandate of private sale or purchase.

c. a tax.

d. a subsidy.

ANSWER: a

20. If in the United States, all universities were operated by the government. This would be an example of:

a. public financing of private provision.

b. restriction or mandate of private sale or purchase.

c. a subsidy.

d. public provision.

ANSWER: d

21. The government has passed many school accountability measures that reward schools if their students score highly on standardized tests. Suppose schools respond by manipulating the set of test takers to increase average scores. This outcome is an example of a(n):

a. intended effect.

b. direct effect.

c. indirect effect.

d. desired outcome.

ANSWER: c

22. The government has passed many school accountability measures that reward schools if their students score

highly on standardized tests. Suppose schools respond by more efficiently teaching their students. This outcome is an example of an:

a. intended, direct effect.

b. intended, indirect effect.

c. unintended, direct effect.

d. unintended, indirect effect.

ANSWER: a

23. Suppose that because the government increases the minimum wage, employees who earn the minimum wage get a pay increase. This is an example of an:

a. intended, direct effect.

b. intended, indirect effect.

c. unintended, direct effect.

d. unintended, indirect effect.

ANSWER: a

24. Which of these might be a direct effect of providing free health care for those without insurance?

a. Those who are without private health insurance are now better off.

b. Those with private health insurance may drop their coverage.

c. Those without health insurance may purchase private health insurance.

d. Those eligible for free health insurance are not aware of the benefit.

ANSWER: a

25. Which of these is the government agency that uses empirical economics to achieve its mission of providing Congress with objective, nonpartisan analyses necessary for economic and budget decisions?

a. National Bureau of Economic Research

b. Office of Management and Budget

c. Antitrust Division of the Department of Justice

d. Congressional Budget Office

ANSWER: d

26. Suppose that because the government increases the minimum wage, employers choose to hire fewer workers. This is an example of a(n):

a. intended effect.

b. direct effect.

c. indirect effect.

d. desired outcome.

ANSWER: c

27. The government offers unemployment benefits to workers who have lost their jobs and have not yet found new ones. Which of these is an example of an indirect, unintended effect of government intervention?

a. Recipients reduce their job search activities.

b. Recipients can still afford to pay health insurance premiums.

c. Recipients are at less risk of falling into poverty.

d. Potential recipients choose not to file for benefits.

ANSWER: a

28. During failures, the government can attempt to adjust prices in the private market through a price mechanism. This includes:

a. price ceilings and price floors.

b. taxes and subsidies.

c. inflation and deflation.

d. exports and imports.

ANSWER: b

29. How governments should intervene is what type of question? Why governments intervene in the way they do is what type of question?

a. How governments intervene is a normative question, and why governments intervene is a normative question.

b. How governments intervene is a positive question, and why governments intervene is a negative question.

c. How governments intervene is a normative question, and why governments intervene is a positive question.

d. How governments intervene is a positive question, and why governments intervene is a normative question.

ANSWER: c

30. If government revenues equal government spending, this results in what is called a:

a. cash flow deficit.

b. cash flow surplus.

c. debt.

d. balanced budget.

ANSWER: d

31. The accumulation of past which of the following over time is measured by what?

a. The accumulation of past debts is measured by cash flow deficit.

b. The accumulation of past cash flow surplus is measured by changes in taxation.

c. The accumulation of past deficits is measured by debt.

d. The accumulation of past budget surpluses is measured by GDP.

ANSWER: c

32. The current federal debt of the United States is:

a. less than 15% of the gross domestic product.

b. approximately 30% of the gross domestic product.

c. approximately 60% of the gross domestic product.

d. more than 120% of the gross domestic product.

ANSWER: d

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33. The national interstate highway system is a classic example of what economists call:
   a. a public good.
   b. entitlement spending.
   c. social insurance.
   d. a private service.

ANSWER: a

34. Which statement is accurate concerning federal and state receipts in the past 60+ years?
   a. Corporate taxes are now the largest share of federal receipts.
   b. The percentage contributed from income taxes has decreased.
   c. The percentage contributed from states in property taxes has decreased.
   d. Sales tax contributions to the state have remained constant.

ANSWER: c

35. By the 2020s, the largest expenditure(s) in the national budget was no longer:
   a. defense, but are Social Security and healthcare programs.
   b. education, but are defense and Social Security.
   c. Social Security, but are defense and government pensions.
   d. healthcare programs, but are defense and education.

ANSWER: a

36. The state government collects a billion in tax revenue during the current fiscal year and spends all of it. The government is running a:
   a. cash flow deficit.
   b. cash flow surplus.
   c. debt.
   d. balanced budget.

ANSWER: d

37. The state government collects $550 billion in tax revenue during the current fiscal year and spends nearly $500 billion. The government is running a:
   a. cash flow deficit.
   b. cash flow surplus.
   c. debt.
   d. balanced budget.

ANSWER: b

38. During the second quarter of 2020, the GDP:
   a. fell by about 312%.
   b. rose by about 10%.

c. fell by about 10%.

d. remained constant.

ANSWER: a

39. The state government collects $550 billion in tax revenue during the current fiscal year and spends $575 billion. The government is running a:

a. cash flow deficit.

b. cash flow surplus.

c. debt.

d. balanced budget.

ANSWER: a

40. The state government collects $550 billion in tax revenue during the current fiscal year and spends $575 billion. Which of these is TRUE?

a. It is not possible to spend more than incoming revenue.

b. The national debt will decrease by about $25 billion.

c. The government will cut taxes to cover this shortfall.

d. The national debt will increase.

ANSWER: d

41. The state government collects $475 billion in tax revenue during the current fiscal year and is running a cash flow surplus. Which of these is TRUE?

a. Government spending is greater than or equal to $475 billion.

b. The national debt is less than $475 billion.

c. The state government will cut taxes because it is running a surplus.

d. The state government spending is less than $475 billion.

ANSWER: d

42. From the 1950s to the present time, the size of the government has averaged approximately:

a. 3.4% of GDP.

b. 2% of GDP.

c. 12% of GDP.

d. 20% of GDP.

ANSWER: d

43. Which of these BEST describes the focused approach of how the administrations and Congress responded to the unprecedented crises caused by the pandemic?

a. Democrats preferred a reduced government response.

b. Democrats were more concerned with individuals' freedom to choose health restrictions as individuals saw fit, while Republicans were more concerned with containing the spread.

c. Republicans were more focused on business, and Democrats were more focused on unemployment and state support.

d. Republicans favored expansions in benefits for unemployed individuals, while Democrats favored loans to businesses.

ANSWER: c

44. Which BEST describes the financial responses of the government toward Covid-19 in the early 2020s?

a. Congress passed a $900 billion relief bill in 2020 and a $1.9 trillion relief bill in 2021.

b. The Democratic Congress relief bill was less concerned about unemployment than the Republican Congress relief bill.

c. The Democratic Congress relief bill was more concerned about business funding than the Republican Congress relief bill.

d. The government's Paycheck Protection Program (PPP), which provided forgivable loans to businesses, saved many jobs.

ANSWER: a

45. By April 2020, what percentage of working papers distributed through the National Bureau of Economic Research were Covid-19 related?

a. 18.5%

b. 87.2%

c. 2%

d. 23.8%

ANSWER: d

46. Early working papers distributed through the National Bureau of Economic Research show that:

a. provision of the CARES Act led to much higher consumption.

b. the Paycheck Protection Program (PPP) saved many jobs.

c. unemployment insurance expansions deter workers from returning to work.

d. government interventions to limit economic activity had a large effect.

ANSWER: a

47. The Inflation Reduction Act (IRA), a $500 billion law that made substantial signature changes to federal government policies. What were some of the main focuses of the bill?

ANSWER: This legislation highlighted the fundamental differences in economic positions of the major political parties in the U.S. today. The major source of spending in the IRA was new spending and tax breaks to combat climate change. Many of these tax provisions were aimed at incentivizing clean-energy investments and reducing carbon emissions. Tax breaks were established for companies that invest in clean energy projects that also follow strict labor standards. Bonus credits were made for those who invest in disadvantaged communities or areas historically dependent on fossil fuels. Households benefited from receiving tax credits for purchasing clean-energy goods like electric vehicles and solar panels. This spending represented one of the single largest fiscal investments in environmental improvements in our nation's history.

48. Why is the independence of the CBO so important? Explain.

ANSWER: The CBO was created in 1975 with the mission to provide Congress with the objective, timely, nonpartisan analyses needed for economic and budget decisions. It provides Congress with independent, nonpartisan analysis of budgetary and economic issues, producing regular reports on the budget and economy, cost estimates for proposed legislation, and in-depth analytical reports on specific policy areas. It does not make recommendations; it provides impartial information to help Congress's decisions about spending and revenues. Independence and impartiality are vital for accurate, nonpartisan recommendations.

49. An important critical role the government plays in all nations is that of regulating economic and societal activities. What are some of the main areas and departments from which the U.S. federal government extends its influence besides taxation and spending?

ANSWER: The Food and Drug Administration (FDA) approves the foods and medications that are permitted in and consumed in the United States. It regulates the labeling and safety of nearly all food products and bottled water, tests cosmetics to ensure their safety, and approves drugs and medical devices to be sold to the public. While the FDA spends less than 0.025% of the yearly federal budget, its regulatory powers cover $2.9 trillion worth of goods annually. The Occupational Safety and Health Administration (OSHA) regulates the workplace safety of American firms and people employed at more than 10 million job sites. OSHA sends more than 1,850 inspectors on more than 34,000 visits to inspect workplace environments for safety concerns. The Federal Communications Commission (FCC) regulates interstate and international radio, television, wire, satellite, and cable communications. The Environmental Protection Agency (EPA) is charged with regulating pollution standards and minimizing dangerous pollutants in the air, water, and food supplies.

50. How has the distribution of federal and state spending changed from 1960 to 2023?

ANSWER: The federal government's spending structure has changed substantially over the last 60+ years, especially in the area of defense. In 1960, nearly half of federal government spending (47.54%) was on national defense, military expenditures either at home or abroad; by 2023, that had dropped to 12.07%. With the growing baby boomer demographics, Social Security and other "retirement" entitlements have increased. Social Security has increased by approximately 50% from 1960 (12.42%) to 2023 (19.12%).

For state and local governments, the largest portion of spending by far in 1960 was education (37.74%), and in 2023, that had reduced to approximately 31%. While spending on education decreased, spending on healthcare increased substantially. In 1960, average healthcare expenditures were about 8%. By 2023, healthcare expenditures increased to 27.16%.

51. What were the economic effects of government intervention during the Covid-19 pandemic?

ANSWER: Government involvement during the Covid-19 pandemic provided economic support but had both positive and negative effects. The intervention, which included stimulus payments, expanded unemployment benefits, and business loans, mitigated welfare losses and accelerated the recovery, preventing a deeper recession. It also contributed substantially to increased inflation and increased government debt.