Chapter 11

MCQ

1. In most high-income countries the *government share of use* is approximately \_\_\_\_\_\_\_\_\_\_\_?

1. 30-60 percent of GDP
2. 20-30 percent of GDP
3. 20 percent of GDP
4. 1-5 percent of GDP
5. minus 2 to plus 3 percent of GDP

2. In most high-income countries *government investment* is approximately \_\_\_\_\_\_\_\_\_\_\_?

1. 30-60 percent of GDP
2. 20-30 percent of GDP
3. 20 percent of GDP
4. 1-5 percent of GDP
5. minus 2 to plus 3 percent of GDP

3. In most high-income countries *government transfers* are approximately \_\_\_\_\_\_\_\_\_\_\_?

1. 30-60 percent of GDP
2. 20-30 percent of GDP
3. 20 percent of GDP
4. 1-5 percent of GDP
5. minus 2 to plus 3 percent of GDP

4. In most high-income countries the *government share of income* is approximately \_\_\_\_\_\_\_\_\_\_\_?

1. 30-60 percent of GDP
2. 20-30 percent of GDP
3. 20 percent of GDP
4. 1-5 percent of GDP
5. minus 2 to plus 3 percent of GDP

5. In most high-income countries *government net interest payments* are approximately \_\_\_\_\_\_\_\_\_\_\_?

1. 30-60 percent of GDP
2. 20-30 percent of GDP
3. 20 percent of GDP
4. 1-5 percent of GDP
5. minus 2 to plus 3 percent of GDP

6. The change in real net government debt, , is equal to

1. 
2. 
3. 
4. 

7. The change in the government debt ratio, , is equal to

1. 
2. 
3. 
4. 

8. A higher rate of growth of GDP will reduce the debt ratio *for a given budget deficit*.   
What is the reason?

1. Higher production means that tax revenue increases
2. Higher income means that government debt is reduced
3. Higher income increases the denominator in the debt ratio
4. Higher income means that government interest payments are reduced relative to GDP

9. Consider a hypothetical country where government expenditure is 40 percent of GDP and consists only of wage payments to government employees. Tax revenue is 30 percent of GDP. Net government debt is 80 percent of GDP and the real interest rate on government debt is equal to the real growth rate of real GDP. Suppose that the government wants to stop the increase in the debt ratio by only firing government employees. What fraction of government employees must be fired?

1. One out of twenty
2. One out of ten
3. One out of five
4. One out of four

10. Which of the following factors will increase the effect of a tax cut on aggregate demand?

1. Parents are strongly concerned about the future well-being of their children
2. Consumers believe that tax cuts will be financed by future reductions in expenditure on defense
3. Financial innovations have made it easier to borrow
4. Consumers believe that government debt will be permanently increased

11. If government consumption increases, this is likely to raise aggregate demand, but also to lead to “crowding out” of private investment. What is the reason?

1. The central bank will typically increase the money supply at a constant rate; as income increases, this increases demand for money and the interest rate
2. In order to stabilize inflation, the central bank will set a higher interest rate than it would have done without the increase in government expenditure
3. In the short run, production is given, so if the government uses more goods and services, the private sector must use less goods and services

12. Assume that the marginal tax is 50 percent and government expenditure is fixed. The government deficit is 8 percent of GDP and the output gap is minus 8 percent. What is the structural (cyclically adjusted) deficit?

1. 2 percent
2. 4 percent
3. 6 percent
4. 8 percent

13. Assume that taxes are a fixed proportion of income and government expenditure grows at a constant rate. What will happen to tax revenue and government expenditure *relative to GDP* when the economy goes into a deep recession where GDP falls?

1. Tax revenue and government expenditure increase relative to GDP
2. Tax revenue decreases relative to GDP and government expenditure increases relative to GDP
3. Tax revenue is unchanged relative to GDP and government expenditure increases relative to GDP
4. Tax revenue decreases relative to GDP and government expenditure is roughly unchanged relative to GDP

14. Consider the empirical data. What will typically happen to tax revenue and government expenditure *relative to GDP* when the economy goes into a deep recession?

1. Tax revenue and government expenditure increase strongly relative to GDP
2. Tax revenue decreases strongly relative to GDP and government expenditure increases strongly relative to GDP
3. Tax revenue is roughly unchanged relative to GDP and government expenditure increases strongly relative to GDP
4. Tax revenue decreases strongly relative to GDP and government expenditure is roughly unchanged relative to GDP