Group problems

Macro

P

MSC

MPC
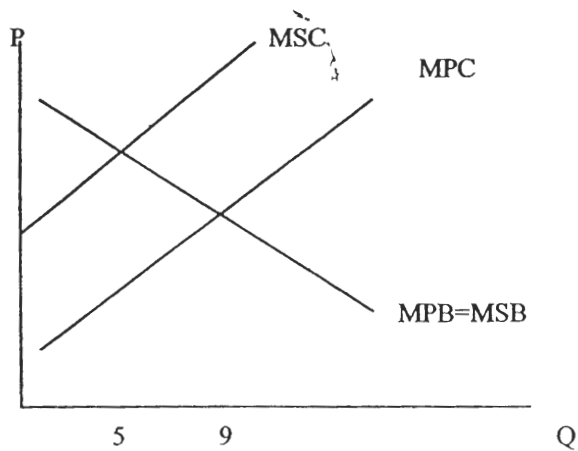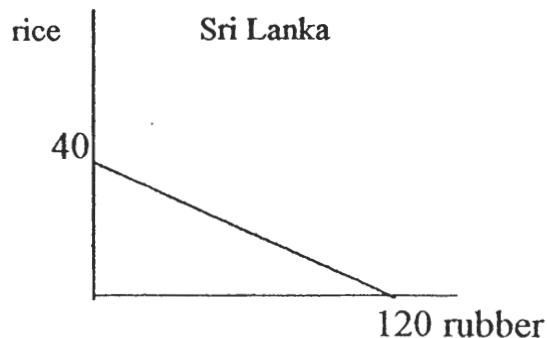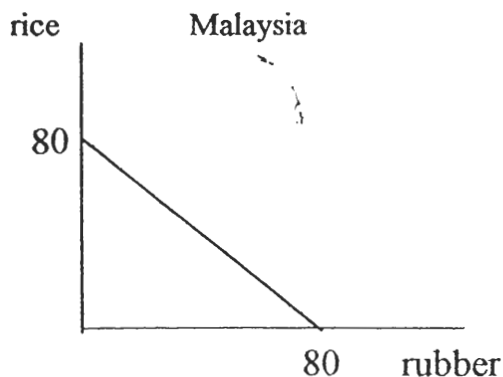
MPB=MSB

5   9   Q

Use the above graph to answer questions 1-3

1. What does the above graph depict?
   a. positive externality
   b. negative externality
   c. public good
   d. merit good

2. What level of output will the private sector end up with?
   a. 9
   b. 2
   c. 5
   d. 10

3. What is the socially optimal level of output?
   a. 9
   b. 2
   c. 5
   d. 10

4. benefits passed on to third parties are included in:
   a. MPB
   b. MSB
   c. MPC
   d. MSC

5. Costs passed on to third parties are included in:
   a. MPB
   b. MSB
   c. MPC
   d. MSC

6. If your income is $50,000 and you tax payment is $5,000, what is your tax rate?
   a. 5%
   b. 10%
   c. 1000%
   d. 15%

7. If your income is $75,000 and your tax rate is 20%, what is your tax payment?
   a. $7,500
   b. $15,000
   c. $20,000
   d. $30,000

8. If your tax payment increases from $5000 to $6000 when income increases from $50,000 to $70,000, the tax you are paying is:
   a. progressive
   b. regressive
   c. proportional
   d. retroactive

9. Which of the following is an advantage of a corporation?
   a. unlimited liability
   b. limited liability
   c. double taxation
   d. avoidance of double taxation

10. National defense is a example of:
    a. negative externality
    b. positive externality
    c. public good
    d. merit good

2

	Arboc	Arbez
Wheat	12 bushels	6 bushels
Cloth	12 yards	12 yards

1. Arbez
A. has an absolute advantage in the production of cloth
B. has an absolute Advantage in the production of wheat
C. has a comparative advantage in the production of cloth
D. has a comparative advantage in the production of wheat

2. The opportunity cost of one bushel of wheat in Arbez is
A. 1/2 yard of cloth
B. 2 yards of cloth
C. 6 yards of cloth
D. 12 yards of cloth

3. Which of the following statements is false?
A. Arboc has an absolute Advantage in the production of wheat.
B. Arbez should export wheat to Arboc and import cloth from Arboc
C. the opportunity cost of wheat is twice as high in Arbez as in Arboc
D. the opportunity cost of a yard of cloth in Arboc is one bushel of wheat

4. Arboc and Arbez decide to specialize according to the law of comparative advantage and trade with one another. We would expect that
A. the trade agreement will be somewhere between 1 bushel of wheat for 1 yard of cloth and 1 bushel of wheat for 3 yards of cloth
B. the trade agreement will be somewhere between 1/2 a bushel of wheat for 5 yard of cloth and 2 bushels of wheat for 1 yard of cloth
C. Arboc will benefit from trading with Arbez, but Arbez will not benefit from trading with Arboc
D. Arboc will specialize in the production of wheat and Arbez will specialize in the production of cloth

5. The ratio at which exports are traded for imports is known as
A. the exchange rate
B. the trade balance
C. the balance of exchange
D. the terms of trade

rice   Malaysia

80

80   rubber

rice   Sri Lanka

40

120 rubber

6. Which of the following statements is true?
A. Malaysia has an absolute advantage in the production of rubber
Sri Lanka has an absolute advantage in the production of rice
B. Sri Lanka has an absolute advantage in the production of rubber; Malaysia has an absolute advantage in the production of rice.
C. Malaysia has an absolute Advantage in the production of both goods
D. Sri Lanka has an absolute Advantage in the production of both goods

7. Which statement is false?
A. In Malaysia, the opportunity cost of one unit of rubber is one unit of rice
B. In Malaysia, the opportunity cost of one unit of rice is one unit of rubber
C. In Sri Lanka, the opportunity cost of one unit of rubber is Three units of rice
D. In Sri Lanka, the opportunity cost of one unit of rice is three units of rubber

8. Which of the following statements is true?
A. Malaysia has a comparative advantage in the production of rubber; Sri Lanka has a comparative advantage in the production of rice
B. Sri Lanka has a comparative advantage in the production of rubber; Malaysia has a comparative advantage in the production of rice
C. Malaysia has a comparative advantage in the production of both goods
D. Sri Lanka has a comparative advantage in the production of both goods

9. Given that Malaysia and Sri Lanka decide to trade
A. Malaysia should specialize in the production of rubber; Sri Lanka should specialize in the production of rice
B. Malaysia should specialize in the production of rice; Sri Lanka should specialize in the production of rubber
C. Malaysia and Sri Lanka should each devote half their resources to the production of each commodity
D. Malaysia should specialize in the production of rubber; Sri Lanka should produce some rice but continue to produce some rubber

4

Price   t-shirts   S

                    e

$6

$4

                                D

        200   400   500   600   Quantity
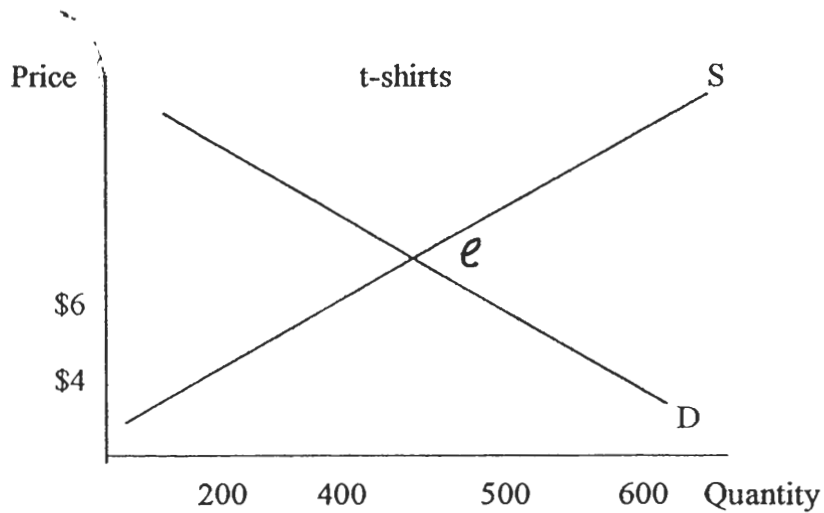
The diagram shows the American demand for and supply of t-shirts. the world price is $4 per shirt.

10. In an unrestricted open market, the U.S. will
A. export 400 t-shirts
B. export 200 t-shirts
C. import 400 t-shirts
D. import 200 t-shirts

11. The garment industry successfully lobbies Congress to impose a $2 per shirt tax on imports. Now the U.S. will
A. export 400 t-shirts
B. export 200 t-shirts
C. import 400 t-shirts
D. import 100 t-shirts

12. The government will collect_____ in tariff revenues.
A. $ 100
B. $ 200
C. $ 400
D. $ 800

5

Problems and Exercises:

1. For each of the following changes in the unemployment rate, state what will likely happen to output in the United States:

     a. Unemployment rate falls 2 percentage points.

     b. Unemployment rate falls 1 percentage point.

     c. Unemployment rate increases 3 percentage points.

2. for each, state whether the unemployment is structural or cyclical.

     a. Unemployment rises as output in the economy falls.

     b. The demand for workers to make typewriters falls as more consumers switch to computers.

     c. As the United States becomes a more high-tech producer, labor intensive factories(*low tech*) relocate to low wage countries. Factory workers lose their jobs and the unemployment rate rises.

     d. As it becomes more acceptable for mothers to work, more women leave homemaking and enter the labor market looking for work. The unemployment rate rises.

     e. Foreign economies slow and demand fewer U.S. exports. Unemployment rate rises.

3. Calculate the following given the information about the economy in the table:

Total Population	260 million
Nonistitutional population	200 million
Incapable of working	60 million
Not in the labor force	66 million
Employed	134 million
Unemployed	10 million

    a. Labor force

    b. Unemployment rate

4. Create a price index for Green Bay Packer fans using the following basket of goods with 1997 prices as the base year.

Quantities	Prices	
in 1997	1997	1998
90 lbs of cheese	$2.50/lb	$2.00/lb
12 flannel shirts	$15/shirt	$20/shirt
16 football tickets	$25/ticket	$30/ticket

a. What is the price of the basket of goods each year? Show how the price index is 100 in the base year

b. Using 1997 as the base year, what is the price index in 1998? By how much have prices risen?

c. What are some potential flaws of this price index?

7.

A1. You have been hired as a research assistant and are given the following data about the economy:

Transfer payments	$70
Interest paid by consumers	5
Net exports	10
Indirect business taxes	44
Net foreign factor income	3
Corporate income tax	69
Contribution for social insurance	37
Personal tax and non-tax payments	92
Undistributed corporate profits	49
Gross private investment	200
Government purchases	190
Personal consumption	550
Depreciation	65

You are asked to calculate the following:

a. GDP

b. GNP

c. NNP

d. NDP

e. NI

f. Personal income

g. Disposable personal income

8

Multiple Choice Questions:

1. If inflation is 10% and nominal GDP goes up 20%, real GDP goes up approximately
   a. 1%
   b. 10%
   c. 20%
   d. 50%

2. To move from GDP to GNP, one must
   a. add net foreign factor income
   b. subtract inflation
   c. add depreciation
   d. subtract depreciation

3. If a firm's cost of materials is $100 and its value of sales is $500, its value added is
   a. $100
   b. $400
   c. $500
   d. $600

4. If a woman divorces her housespouse and hires him to continue cleaning her house for $20,000 per year, GDP will
   a. remain constant
   b. increase by $20,000
   c. decrease by $20,000
   d. remain unchanged

5. The four components of expenditures in GDP are
   a. consumption, investment, government spending, and net exports
   b. consumption, depreciation, investment, and government expenditures
   c. consumption, investment, gross exports, and government expenditures
   d. durable goods, nondurable goods, services, and government expenditures

6. The largest component of expenditures in GDP is
   a. consumption
   b. investment
   c. net exports
   d. government purchases

7. The largest component of national income is
   a. rents
   b. net interest
   c. profits
   d. compensation to employees

8. If the price level rises by 2% and nominal GDP increases from $5 trillion to $6 trillion, by approximately how much has real GDP increased?
   a. 0%
   b. 2%
   c. 18%
   d. 48%

9. If nominal GDP rises
   a. well being of society has definitely increased
   b. well being of society has definitely decreased
   c. well being of society may have increased or decreased
   d. well being of society has most likely increased

10. Gross investment differs from net investment by
    a. net exports
    b. net imports
    c. depreciation
    d. transfer payments

11. GDP differs from net domestic product by
    a. depreciation
    b. exports
    c. imports
    d. transfer payments

1. flexible wages, prices and interest rates
2. long run focused
3. short run focused
4. demand focused
5. supply focused
6. supply creates its own demand
7. in the long run we're all dead
8. output equals income
9. activist
10. the economy will fix itself
11. wages prices and interest rates are sticky especially in the downward direction
12. the equation of exchange

C   K

11
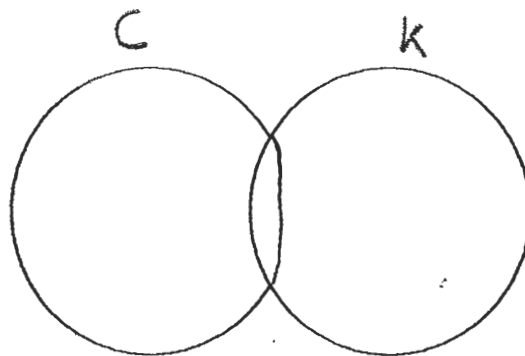
Problems and exercises

1. State the equation of exchange. With that equation answer the following questions:

    a. Nominal GDP is $2000, the money supply is 200. What is the velocity of money?

    b. The velocity of money is 5, the money supply is $1,000 billion. What is nominal output?

    c. Assuming velocity is constant and the money supply increases by 10%, by how much does nominal output increase?

Multiple Choice Questions:

1. Classical economists generally
    a. favor government intervention
    b. oppose government intervention
    c. believe the economy is primarily directed by the invisible handshake
    d. think unions are not responsible for unemployment

2. Say's law states that
    a. demand creates its own supply
    b. supply creates its own demand
    c. supply and demand are not related
    d. there is no such thing as a free lunch

3. When people save, Say's law
    a. is invalidated
    b. remains true because saving has nothing to do with Say's law.
    c. remains true as long as saving is translated back into investment
    d. is false because saving creates unemployment

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4. Classical economists believed all the following except
   a. frictional unemployment could exist
   b. structural unemployment could exist
   c. voluntary unemployment could exist
   d. unemployment could be caused by inflexible wages

5. the equation to exchange is
   a. MP=VQ
   b. MQ=VP
   c. MV=PQ
   d. PV=QM

6. Classical economist believe the equation of exchange should be read from
   a. left to right
   b. right to left
   c. top to bottom
   d. bottom to top

7. The Classical economists' solution to the Great Depression was
   a. reduce the wage rate
   b. increase aggregate demand
   c. increase the money supply
   d. decrease the money supply

8. If the price level changes one would expect
   a. the aggregate demand curve to shift to the right
   b. the aggregate demand curve to shift to the left
   c. the aggregate demand curve to remain unchanged
   d. the aggregate demand curve to become flatter

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1. Answer the following questions about the aggregate production curve.
   a. Draw an aggregate production curve.
   b. What is the slope of the aggregate production function?
   c. Why is the slope as you have drawn it?

2. You are given the following information about the economy:

Income	Consumption:
0	100
500	500
1000	900
2000	1700
3000	2500
4000	3300

a. What is the level of autonomous consumption?

b. What is the marginal propensity to consume?

c. What consumption equation corresponds to the table?

3. Putting consumption and production together:

a. Graph the consumption function from question 2 on the aggregate production curve from question 1.

b. What is the slope of the consumption function?

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4. Given the following equation, and the questions: $AE = C_0 + .6y + I_0 + G_0 + (X_0 - M_0)$
where $C_0 = 1000$, $I_0 = 500$, $G_0 = 300$, $X_0 = 300$, $M_0 = 400$

a. Draw the aggregate production curve.

b. draw the aggregate expenditures curve

c. What is the slope of the curve?

d. What is the vertical axis intercept?

e. What is the multiplier?

f. What is equilibrium income? Label that point A on the graph.

g. What is the effect of an increase in autonomous consumption of $ 200 on equilibrium income? Demonstrate your answer graphically.

h. What is the effect on equilibrium income of a change in the mpc from .6 to .8? Demonstrate your Answer graphically.

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5. Calculate the multiplier in each case.

    a. mpc = .7

    b. mpc = .4

    c. mps = .4

6. For each of the following, state what will happen to equilibrium income.

a. The mpc is 0.9 and autonomous government expenditures just rose $ 200 billion. Graph your analysis

b. The mpc is 0.65 and autonomous investment just fell $ 70 billion. Graph you analysis.

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Multiple Choice Questions

1. In the Keynesian model the aggregate production curve is
   a. a horizontal line
   b. a vertical line
   c. a 45 degree line
   d. a downward sloping line

2. Autonomous expenditures are
   a. expenditures that are automatically created by income.
   b. expenditures that are unrelated to income
   c. expenditures that change as income changes
   d. expenditures that automatically change as income changes

3. The equation for the consumption function is
   a. $C = Co - mpcY$
   b. $C = Co \times mpcY$
   c. $C = Co + mpcY$
   d. $C = Co + mpc + Y$

4. The Marginal Propensity to consume is the
   a. change in consumption times the change in income.
   b. change in consumption divided by the change in income
   c. change in consumption divided by income
   d. consumption divided by the change in income

5. mpc + mps equals
   a. zero
   b. one
   c. ten
   d. unknown

6. If the mpc is .8 what is the size of the multiplier in the Keynesian model?
   a.. 5
   b. 5
   c. 1
   d. 10

7. As the mpc rises, the multiplier
   a. increases
   b. decreases
   c. remains the same
   d. sometimes rises sometime falls

/7

8. In the Keynesian AE/AP model, if autonomous expenditures are $5,000 and the mpc is .9, what is the equilibrium level of income?
    a. $5000
    b. $10,000
    c. $20,000
    d. $50,000

9. In the Keynesian AE/AP model, if autonomous exports fall by 40 and the mpc is .5, what happens to the equilibrium level of income?
    a. income rises by 20
    b. income falls by 20
    c. income rises by 80
    d. income falls by 80

10. In the Keynesian AE/AP model, if autonomous investment falls by 20 and the mpc is .75, what happens to the equilibrium level of income?
    a. income rises by 15
    b. income falls by 15
    c. income rises by 80
    d. income falls by 80

11. In the Keynesian AE/AP model, if autonomous consumption increases by 10 and the mpc is .8, what happens to the equilibrium level of income?
    a. income rises by 8
    b. income falls by 8
    c. income rises by 50
    d. income falls by 50

12. In the Keynesian AE/AP model, if autonomous government spending decreases by 20 and the mpc is .66, what happens to the equilibrium level of income?
    a. income rises by 60
    b. income falls by 60
    c. income rises by 126
    d. income falls by 126

13. In the Keynesian AE/AP model, if autonomous imports decrease by 40 and the mpc is .5, what happens to the equilibrium level of income?
    a. income rises by 20
    b. income falls by 20
    c. income rises by 80
    d. income falls by 80

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Multiple Choice Questions:(fiscal policy)

1. Expansionary fiscal policy involves
    a. increasing taxes
    b. increasing the money supply
    c. increasing government spending
    d. changing the exchange rates

2. The economy has a fixed price level, and mpc of .5, and a recessionary gap of 240. Using the Keynesian AE/AP model, and economist would advise the government to
    a. increase government spending by 120
    b. increase government spending by 240
    c. increase government spending by 480
    d. increase government spending by 620

3. The economy has a fixed price level, and mpc of .66, and a recessionary gap of 900. Using the Keynesian AE/AP model, and economist would advise the government to
    a. increase government spending by 30
    b. increase government spending by 300
    c. increase government spending by 600
    d. increase government spending by 2700

4. The economy has a fixed price level, and mpc of .5, and a recessionary gap of 240. Using the Keynesian AE/AP model, and economist would advise the government to
    a. decrease taxes by 120
    b. decrease taxes by 240
    c. decrease taxes by 480
    d. decrease taxes by 620

5. The economy has a fixed price level, and mpc of .66, and a inflationary gap of 900. Using the Keynesian AE/AP model, and economist would advise the government to
    a. increase taxes by 120
    b. increase taxes by 240
    c. increase taxes by 450
    d. decrease taxes by 450

6. The portion of the budget deficit that would exist if the economy were at its potential level of income is called the
    a. structural deficit
    b. passive deficit
    c. primary deficit
    d. secondary deficit

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1. Assuming individuals hold no cash, calculate the simple money multiplier for each of the following reserve requirements
   a. 15%
   b. 30%
   c. 60%
   d. 80%

2. Assuming individuals hold 10% of their deposits as cash, recalculate the approximate real world money multiplier
   a. 15%
   b. 30%
   c. 60%
   d. 80%

Multiple Choice Questions(money and banking)

1. Which of the following is not a function of money?
   a. medium of exchange
   b. unit of account
   c. store of value
   d. equity instrument

2. Which of the following is not included in the M1 definition of money?
   a. checking accounts
   b. currency
   c. traveler's checks
   d. savings accounts

3. Which of the following is not included in the M2 definition of money?
   a. M1
   b. Saving deposits
   c. Small-denomination time deposits
   d. Bonds

4. Assuming individuals hold no cash, the reserve requirement is 20%, and banks keep no excess reserves, an initial increase of $100 will cause a total increase of how much?
   a. $20
   b. $50
   c. $100
   d. $500

5. Liquidity is
   a. a property of water stocks
   b. the ability to turn an asset into a means of payment at a low cost
   c. the ability to turn an asset into liquid quickly
   d. a property of over-the-counter markets

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Multiple Choice Questions(monetary policy)

1. The central bank of the United States is
   a. the treasury
   b. the fed
   c. the bank of the United States
   d. old lady of threadneedle street

2. Monetary policy is
   a. a variation of fiscal policy
   b. undertaken by the treasury
   c. undertaken by the fed
   d. the regulation of monetary institutions

3. There are seven Governors of the Federal Reserve, who are appointed for terms of
   a. 5 years
   b. 10 years
   c. 14 years
   d. 17 years

4. Explicit functions of the Fed include all the following except
   a. conducting monetary policy
   b. conducting fiscal policy
   c. providing banking services to the U.S. government
   d. serving as a lender of the last resort

5. FOMC stands for
   a. Federal Open Money Committee
   b. Federal Open Market Committee
   c. Fixed Open Market Commitments
   d. Federation of Open Monies Committee

6. Tools of monetary policy include all the following except
   a. changing the reserve requirements
   b. changing the discount rate
   c. executing open market operations
   d. running deficits

7. Assuming $c= .2$ and $r= .1$ the approximate real world money multiplier would be
   a. 1.33
   b. 2.33
   c. 3.33
   d. 4.33

8. The primary tool of monetary policy is
   a. open market operations
   b. changing the discount rate
   c. changing the reserve requirements
   d. imposing credit controls

9. When the Fed sells bonds, the money supply is
   a. expanded
   b. contracted
   c. selling bonds has no effect
   d. sometimes raised and sometimes lowered

10. The Federal funds rate is
    a. the interest rate the government charges banks for Fed funds
    b. the interest rate the Fed charges banks for Fed funds
    c. the interest rate the banks charge individual investors
    d. the interest rate banks charge each other

11. The equation of exchange is
    a. MV=PM
    b. MV=PQ
    c. AE=AP
    d. MF=CE

12. In 1997 nominal GDP in the U.S. was approximately $7.5 trillion, and the money
    supply was approximately $3.75 trillion. The velocity on money was
    a. ½
    b. 2
    c. $7.5 x $3.75
    d. cannot be determined

13. Expected inflation is 4%; nominal interest rates are 7%; the real interest rate is
    a. 1%
    b. 2%
    c. 3%
    d. 7%

14. The real interest rate is 3%; the nominal interest rate is 7%. It is likely that one could
    deduce an expected inflation rate of
    a. 1%
    b. 2%
    c. 3%
    d. 4%

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Problems and Exercises:

1. Refer to the following table to answer the questions

Currency	U.S. $ equivalent	Foreign Currency per U.S. $
British pounds	_____	0.51
Euro	_____	.68
Chilean Peso	_____	420.00
Swiss Franc	0.67	_____
Japanese Yen	0.009	_____

a. Complete the blanks in the table above

b. How many Chilean pesos buy one dollar?

c. How many Chilean Pesos buy one Japanese Yen?

d. How many dollars are needed to buy a British Rolls Royce at a cost of 75,000 pounds?

23

For each of the following calculate the real deficit

a. Inflation is 5%. Debt is $2 trillion. Nominal deficit is $100 billion.

b. Inflation is -3%. Debt is $500 billion. Nominal deficit is $20 billion.

c. Inflation is 10%. Debt is $3 trillion Nominal deficit is $100 billion.

d. Inflation is 8%. Debt is $20 billion. Nominal deficit is $5 billion.

Multiple Choice Questions

1. a deficit is
   a. the total amount of money that a country owes.
   b. the shortfall of payments under revenues in a particular time period.
   c. the shortfall of revenues under payments in a particular time period.
   d. accumulated debt.

2. Since World War II, nominal U.S. government debt has usually been
   a. rising
   b. falling
   c. sometimes rising and sometimes falling
   d. non-existent because the U.S. government has no debt

3. Country A has a debt of $10 trillion. Country B has a debt of $5 trillion.
   a. Country A is in a better position than Country B
   b. Country B is in a better position than Country A
   c. One cannot say what relative position the countries are in.
   d. Countries A and B are in equal positions

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4. As a percentage of GDP, since World War II
    a. debt in the U.S. has been rising
    b. debt in the U.S. has been falling
    c. debt in the U.S. has been sometimes rising, sometimes falling
    d. the U.S. government has had no debt

5. The nominal deficit is $100 billion; inflation is 4%; total debt is $2 trillion. The real deficit is
    a. zero
    b. $20 billion
    c. $80 billion
    d. $100 billion

6. The nominal deficit is $200 billion; inflation is 20%; total debt is $1 trillion. The real deficit is
    a. zero
    b. $20 billion
    c. $80 billion
    d. $100 billion

7. The real deficit is $100 billion; inflation is 4%; total debt is $2 trillion. The nominal deficit is
    a. zero
    b. $120 billion
    c. $180 billion
    d. $200 billion

8. According to economist, the deficit
    a. is very important
    b. is not important at all
    c. is important primarily as one indicator of the financial health of the economy
    d. should always be matched by surpluses

9. Which of the following statements is true?
    a. A funded pension system is preferable to an unfunded pension system
    b. An unfunded pension system is preferable to a funded pension system
    c. Whether an funded pension system is preferable to and unfunded pension system depends
    d. An unfunded pension system and a funded pension system are essentially identical

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Multiple Choice Questions:

1. The phillips curve represents a relationship between
   a. inflation and unemployment
   b. inflation and real income
   c. money supply and interest rates
   d. money supply and unemployment

2. The short run phillips curve shifts around because of
   a. changes in the money supply
   b. changes in expectations of employment
   c. changes in expectations of inflation
   d. changes in expectations of real income

3. The long run phillips curve is thought by many economists to be
   a. horizontal
   b. vertical
   c. downward sloping
   d. backward bending

4. An economist has just said, "Inflation is everywhere and always a monetary phenomenon." You would deduce this economist
   a. is likely to be a Keynesian economist
   b. is likely to be a Classical economist
   c. could be either a Keynesian economist or a Classical economist
   d. must be neither a Keynesian economist nor a Classical economist, because neither of these groups would ever say that

5. Classicals generally favor a monetary rule that has
   a. money supply not changing at all
   b. money supply increasing by a predetermined percentage of about 3%
   c. money supply increasing by a predetermined percentage of about 10%
   d. monetary policy tied to whether the economy is in a recession or a boom

6. Classical economist see the economy gravitating towards
   a. the stagflation rate of unemployment
   b. the natural rate of unemployment
   c. the inflation rate of unemployment
   d. the phillips rate of unemployment

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7. If the economy is at point A in the phillips curve, what prediction would you make for expected of inflation in the long run?
   a. it will increase
   b. it will decrease
   c. it will remain constant
   d. it will explode
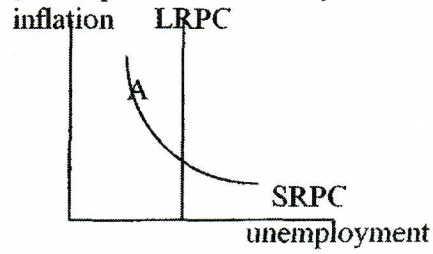
8. If the economy is at point A in the phillips curve, what prediction would you make for expected inflation in the long run?
   a. it will increase
   b. it will decrease
   c. it will remain constant
   d. it will immediately fall to zero

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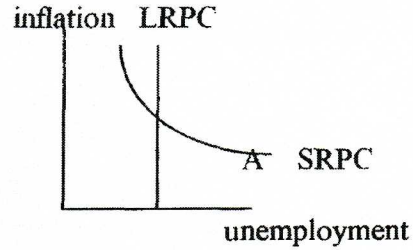
Problems and exercises

1. Suppose you get a need based payment of $800 a month if you have no income, but you get a need based payment of $200 if you earn $800 a month. You are deciding whether to take a job at Taco Cabana that pays $5 an hour for 40 hours a week, or $800 a month.

   A. If you take the job how much money will you make?

    b. What is the implicit tax rate (opportunity cost) on your income? Hint: first find what income you give up by working. Then find the percentage reduction.

    c. What will likely happen to your decision to work because of this implicit tax? Will you work for Taco Cabana or will you decide not to work?

    d. Would your answers to a, b, and c affect your supply side policy proposals? How?

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Multiple Choice Questions

1. Classical methods to create supply-side incentives to increase output include
   a. lowering tax rates, reducing government social welfare spending, and reducing government regulation
   b. lowering tax rates, reducing government social welfare spending, and increasing government regulation
   c. lowering tax rates, increasing government social welfare spending, and increasing government regulation
   d. increasing tax rates, increasing government social welfare spending, and increasing government regulation

2. The difference between supply-side and Keynesian "tax cutting" policies is that
   a. while the supply side view holds that tax cuts spur economic growth through the multiplier effect, the Keynesian view does not
   b. the supply side view is that "tax cutting" stimulates the economy while the Keynesian view is that it doesn't
   c. the supply side view focuses on tax rates and microeconomic incentives while the Keynesian view focuses on aggregate demand
   d. the supply side focuses on the effect of tax cuts on aggregate demand while the Keynesian view focuses on the effect of tax cuts on potential income

3. Which of the following about the laffer curve is false
   a. as you increase the tax rate from 40% to 60% tax revenues will rise
   b. as you increase the tax rate from 60% to 80% tax revenues will fall
   c. as you decrease the tax rate from 80% to 60% tax revenues will fall
   d. as you decrease the tax rate from 80% to 60% tax revenues will rise

tax revenue

0   40   60   80   tax rate

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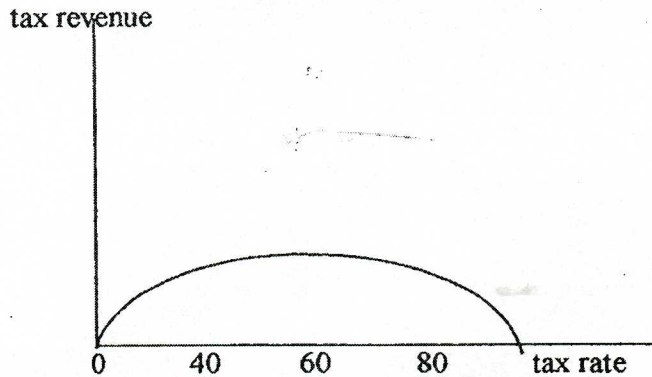
4. With which of the following would a Classical economist most likely to agree?
    a. social welfare programs reduce people's incentives to work and reduce an economy's potential output
    b. social welfare programs reduce people's needs and people then have an incentive to appear less needy
    c. social welfare programs help maintain social order and cohesion, and thus increase potential income
    d. social welfare programs are wasteful in the short run but are investments in the future

5. Which of the following is a policy a Classical supply sider is likely to advocate?
    a. a decrease in the payroll tax
    b. raise the minimum wage
    c. institute a targeted employment subsidy policy
    d. institute an incomes policy

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