# *Public Budgeting Systems 10th edition Lee Test Bank*

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**Chapter: Chapter 02 - Quiz**

**Multiple Choice**

1. At the turn of the 20th century, which level of government was spending the most?
A) County governments
B) State governments
C) Local governments
D) The federal government
Ans: C
Complexity: Easy
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2. What percentage of U.S. GDP is all government expenditures today?
A) 10%
B) 19%
C) 24%
D) 33%
Ans: D
Complexity: Easy
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3. In what private business/industry group are the distinctions between the public and private sectors most blurred?
A) The defense industry
B) Highway construction
C) Education
D) All of these are correct.
Ans: A
Complexity: Easy
Ahead: Relative Sizes of the Private and Public Sectors
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4. What private business/industry group feels the most significant effects of increases and cuts in government expenditures?
A) The defense industry
B) Highway construction
C) Education
D) All of these are correct.
Ans: D
Complexity: Easy
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**True/False**

1. True or false? The federal government's choice not to tax interest paid on home mortgages has far less effect on the housing industry than total federal expenditures for public housing and redevelopment.
Ans: False
Complexity: Easy
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2. True or false? Middle- and upper-income households benefit far more than lower-income households from the federal government's choice not to tax interest paid on home mortgages.
Ans: True
Complexity: Easy
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3. True or false? The single biggest reason for the continued increases in federal spending since the 1960s has been the growth of large entitlement programs like Social Security, Medicare, and Medicaid.
Ans: True
Complexity: Easy
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4. True or false? Taxes collected at the federal level but spent at the state level are counted as state spending.
Ans: False
Complexity: Easy
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5. True or false? Corporate income taxes account for about 15% of the revenue collected by the federal government.
Ans: False
Complexity: Easy
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6. True or false? States receive more than one-quarter of their revenue from the federal government, and local governments receive about one-third of their revenue from state and federal transfers.
Ans: True
Complexity: Easy
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7. True or false? Education spending is by far the largest category of local expenditures.
Ans: True
Complexity: Easy



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Ahead: Sources of Revenue and Purposes of Government Expenditures
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**Short Answer**

1. What is the primary local source of revenue used to fund public schools?
Ans: The property tax
Complexity: Moderate
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2. What is the major source of revenue for the federal government?
Ans: The individual income tax.
Complexity: Moderate
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**Essay**

1. Describe two of the three main reasons or theories that describe why government always seems to grow over time.
Ans: (1) As the economy grows, government programs also grow to keep up with increased demand for services, also known as Wagner's Law; (2) government bureaucrats are rewarded for managing larger and more complex departments and therefore seek to grow; and (3) elected officials are rewarded by their constituents with re-election more for bringing home public programs to help their district than for cutting or reducing programs.
Complexity: Difficult
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2. Not everything that involves government necessarily means growth in the government budget. Give some examples of governmental activities that do not necessarily mean large public expenditures, but are significant to the private sector and to society as a whole.



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Ans: (1) Candidates for office spend large sums of money (billions of dollars), mostly private, campaigning for office; (2) regulations such as protecting water resources from pollution and overuse, protecting the nation's fisheries, and reducing air pollution to protect the public health impose costs on industries and the public in general.
Complexity: Difficult
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3. What are some examples of today's government taxing and spending policies that can have significant effects on future generations?
Ans: Making adequate health care affordable and available to all, investments in transportation and communication infrastructure, funding public education at all levels, and the accumulation of excessive amounts of debt.
Complexity: Difficult
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4. What are nonexhaustive expenditures? Provide an example.
Ans: Expenditures that do not involve the government's consuming or using up funds, but involve redistributing resources. Examples include interest payments on the national debt, old-age and retirement benefits, unemployment compensation.
Complexity: Difficult
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5. What are the two most common ways to measure the size and growth of government over time?
Ans: The total number of government workers and dollars. Dollars mean the total revenues taken in by government and/or total government expenditures. Revenues and expenditures when comparing change over time or comparing governments with each other and with the private sector are usually shown as a percentage of GDP.
Complexity: Difficult
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6. What are the three categories of federal spending, and what percentage of total spending does each represent?



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Ans: Discretionary spending accounts for just over 30% of all federal spending, with just over half of this amount for defense, while mandatory spending on entitlement programs accounts for 61%, and the balance of nearly 8% is for debt service.
Complexity: Difficult
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7. Briefly describe the relative sizes of the private and public sectors in the United states; the historical growth of local, state, and federal governments and the reasons for that growth; and the purposes of government expenditures with the sources of revenue used by these three main levels of government.
Ans: The private sector measured in terms of revenues or wealth is larger than the public sector in most countries, with the exception of those countries in which the wealth and the the means of production are owned primarily by the government. However, the national government (the federal government in the case of the U.S.) is typically larger than any single private entity, but many private companies are larger than most U.S. states, and even than many smaller countries. Governments grow for many reasons. The desire of senior managers of large public bureaucracies or large private companies to be in charge of more people and more financial resources is cited as one reason for growth. Other reasons include increasing complexity of societies and their economies causes the public to demand more services from government. International events including wars, economic competition among countries, and prestige may be factors in growth. In the U.S., the federal government in the 18th and early 19th centuries was smaller than state and local government. In the post-World War II period, the federal government generally has grown at a faster rate than state and local government, but there have been periods when the federal government seeks to decentralize responsibilities to state and local governments.
Complexity: Difficult
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