Public Finance and Public Policy 7th edition Gruber Test Bank

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Name:_____ Class:_____ Date:_____

Chapter 1

1. An early response to the Covid-19 pandemic was the $2.2 trillion CARES Act signed into law that included:

   a. funding for broadband infrastructure, renter's assistance, and food security for low-income households only.
   b. a mandate for individuals who could not afford health insurance to purchase it or pay a penalty.
   c. direct payments to American households, unemployment benefits, and payroll protection for small businesses.
   d. a bailout plan to U.S. automakers to address impending cash shortage, the risk of bankruptcy, and massive job losses.

ANSWER: c

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 government's role in the economy.
   d. determine the best way to decrease government's role in the economy.

ANSWER: b

3. The goal of public economics, or public finance, is to answer which question?

   a. How might the government intervene in the economy, and what are the likely effects?
   b. Why do profit-maximizing firms attempt to set marginal revenue equal to marginal cost?
   c. How are the terms of trade determined when countries choose to engage in international trade?
   d. What are the goals and tools of macroeconomic policy?

ANSWER: a

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 Juan values a slice of pizza at $1.50, but the pizza shop is unwilling to sell a slice of pizza for less than $2.00. These values imply that:

   a. it is efficient for the shop to sell a slice of pizza to Juan for $1.50.
   b. it is efficient for the shop to sell a slice of pizza to Juan for $2.00.
   c. the shop needs to produce more efficiently in order to lower the price.
   d. it is not efficient for the shop to sell a slice of pizza to Juan.

ANSWER: d

6. Suppose Ali values a slice of pizza at $1.50, but the pizza shop is unwilling to sell a slice of pizza for less than $1.00. These values imply that it is efficient for the shop to sell a slice of pizza to Ali for any price:

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a. greater than or equal to $1.50.
b. greater than or equal to $1.00 and less than or equal to $1.50.
c. less than or equal to $1.00.
d. less than or equal to $1.00 and greater than or equal to $1.50.

ANSWER: b

7. Suppose a student values a textbook at $50, and the publisher is unwilling to sell the textbook at a price lower than $30. What price will lead to an efficient transaction between the student and publisher?
a. a price of $0
b. any price greater than $0 and less than $30
c. any price greater than or equal to $30 and less than or equal to $50
d. any price greater than $50

ANSWER: c

8. Suppose a consumer values a certain 19-inch television set at $150, and the seller is unwilling to sell the set for less than $200. These values imply that:
a. it is efficient for the seller to charge a price of $0.
b. it is efficient for the seller to charge any price greater than $0 and less than $150.
c. it is efficient for the seller to charge any price greater than or equal to $150 and less than or equal to $200.
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.

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b. will reduce efficiency.
c. may increase or decrease efficiency.
d. will not affect efficiency.

ANSWER: c

12. Suppose government proposes taxing Peter to pay Paul. The goal of this intervention could be BEST characterized as an attempt to achieve:
a. redistribution.
b. efficiency.
c. market failure.
d. competitive equilibrium.

ANSWER: a

13. The equity–efficiency trade-off means that obtaining _____ in equality may also lead to a(n) _____ in the so-called size of the pie.
a. no change; decrease
b. no change; increase
c. a decrease; decrease
d. an increase; decrease

ANSWER: d

14. Suppose the government taxes the rich to distribute money to the poor. Which of these is an example of an efficiency loss?
a. Rich people take home less of the money from their jobs because of the tax.
b. Rich people don't work as hard because of the tax.
c. Poor people are better off because of the redistribution.
d. Poor people work just as hard because they still need to make ends meet.

ANSWER: b

15. An intervention in which 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 gasoline sold. This is an example of which type of government intervention?
a. restriction of private sale or purchase
b. taxation
c. a subsidy

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d. public provision

ANSWER: b

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. Public schools in the United States are operated by the government. 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

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

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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 were earning 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 were 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 not yet found new

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ones. Which of these is an example of an indirect, unintended effect of the 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 for falling into poverty.
d. Potential recipients choose not to file for benefits.

ANSWER: a

28. Which of these might be an indirect, unintended effect of providing income support to those without jobs?

a. Those without jobs are made better off.
b. Those without jobs are made worse off.
c. People without jobs now search for and acquire jobs.
d. People without jobs no longer search for and acquire jobs.

ANSWER: d

29. How governments should intervene is a _____ question, and why governments intervene in the way they do is a _____ question.

a. normative; normative
b. positive; negative
c. normative; positive
d. positive; normative

ANSWER: c

30. If government revenues exceed government spending, the difference is called the:

a. cash flow deficit.
b. cash flow surplus.
c. debt.
d. budget.

ANSWER: b

31. The accumulation of past deficits over time is measured by the:

a. cash flow deficit.
b. cash flow surplus.
c. debt.
d. budget.

ANSWER: c

32. The current federal debt of the United States is _____ of the gross domestic product.

a. less than 15%
b. approximately 30%
c. approximately 60%
d. over 100%

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ANSWER: d

33. National defense 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 of these correctly depicts the changes in the sources of federal, state, and local receipts in the past 50 years?
    a. Income taxes are now a larger share of federal receipts.
    b. Property taxes are now a larger share of state and local receipts.
    c. Corporate and excise taxes are now a smaller share of federal receipts.
    d. Sales taxes constitute the exact same share of state and local receipts.

ANSWER: c

35. By 2010, approximately _____ of the non-elderly U.S. population did not have health insurance.
    a. 5%
    b. 15.5%
    c. 18.5%
    d. 25%

ANSWER: c

36. The state government collects $400 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 $400 billion in tax revenue during the current fiscal year and spends nearly $390 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%.

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b. rose by about 10%.
c. fell by about 10%.
d. remained constant.

ANSWER: a

39. The state government collects $400 billion in tax revenue during the current fiscal year and spends $415 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 $400 billion in tax revenue during the current fiscal year and spends $415 billion. Which of these is TRUE?
a. The government is running a cash flow surplus.
b. The national debt will decrease by about $15 billion.
c. The government will cut taxes to cover this shortfall.
d. The national debt will increase.

ANSWER: d

41. The state government collects $405 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 $405 billion.
b. The national debt is less than $405 billion.
c. The government will cut taxes because it is running a surplus.
d. Government spending is less than $405 billion.

ANSWER: d

42. Which was the first state to issue a stay-at-home order on March 19, 2020?
a. New York
b. California
c. Florida
d. Michigan

ANSWER: a

43. Which of these BEST describes the debates over how the government should respond to the unprecedented economic dislocation caused by the pandemic?
a. Both parties favored no restrictions on individuals and businesses.
b. Both parties favored active and large government fiscal responses.
c. One party favored fewer restrictions, while the other favored active intervention.

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d. Both parties opposed active and small government fiscal responses.

ANSWER: c

44. Which of these BEST describes the debates in Congress over provisions of the CARES Act?

a. Both Republicans and Democrats favored mandates for masks for schools and businesses.
b. Democrats favored loans to businesses, while Republicans favored benefits for unemployed individuals.
c. Democrats favored protecting businesses from the legal liabilities of Covid-19, while Republicans prioritized funding for state and local government.
d. Democrats favored expansions in benefits for unemployed individuals, while Republicans favored loans to businesses.

ANSWER: d

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

a. 18.5
b. 90
c. 2
d. 23.58

ANSWER: d

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

a. provision of the CARES Acts 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. Does taxing the wealthy to give benefits to the poor increase social welfare? Explain.

ANSWER: It depends. Taxing the rich to give benefits to the poor may decrease efficiency. For example, it may reduce rich people's incentive to work, which would reduce the total size of the economic pie. In addition, raising money through taxes is not free. There is typically an administrative cost of doing so, which reduces the size of the economic pie. However, taxing the wealthy to give benefits to the poor would increase equity, which may be valued by society in and of itself. Consequently, the answer to this question about social welfare depends on how the society values the efficiency–equity trade-off.

48. Suppose the White House could appoint the lead officials at the Congressional Budget Office (CBO). How could this change affect the level of budget deficits? Explain.

ANSWER: It is possible that the analysts at the CBO would be pressured to make particularly rosy budget predictions of the cost of legislation supported by the administration. Those predictions could help pass that legislation either because politicians believed the estimates or because they were unsure about the true costs. The result could easily be an increase in budget deficits.

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49. Are all of the indirect effects of government intervention in the economy unintended effects? Explain.

ANSWER: In many cases, indirect effects of government intervention are unintended. For example, if the government offers a plan to the uninsured in order to make sure that everyone can afford health insurance, an indirect result of that policy might be that the insured drop their insurance. Such an effect is indirect because it resulted from a change in behavior induced by the policy, and in this case, the effect is also unintended. In contrast, however, many government interventions are intended to change people's behavior. For example, government may institute fines for traffic infractions like speeding. To the extent that these fines reduce speeding, that policy has an indirect effect that is also an intended effect.

50. Suppose someone says that a relatively small percentage of Americans own a large percentage of total assets and therefore that the government should redistribute wealth to those less fortunate. Which part of that statement is normative, and which part is positive, if any? Explain.

ANSWER: Pointing out the facts about the income or wealth distribution is a purely positive statement since it is describing how things are. Stating that the government *should* do something in response is a normative statement, however, since it is saying how things should be as opposed to how they are. Consequently, the first part of the statement is positive, and the second part is normative.

51. Were the government responses to the Covid-19 pandemic primarily lessons from economics?

ANSWER: Government responses to the Covid-19 pandemic were primarily driven by the political process and the preferences of those in charge of the government rather than by lessons derived from economics. For instance, when the Republicans were in control of Congress, government provisions to address the effect of the pandemic prioritized business funding and no money for state and local government. On the contrary, when Democrats gained control of the presidency and Congress, the provisions favored unemployment insurance and funding for local governments. Thus, the political process, rather than economics, had the final word on how governments do what they do.

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