# Chapter 01

# Introduction

## Multiple Choice Questions

1. Public finance

A. is not like public economics.
B. develops principles for understanding the economic role of government.
C. only works for local and state governments.
D. all of these answer options are correct.

2. A regulatory budget would

A. provide an accounting of government regulation.
B. be difficult to compute.
C. have to be attempted unofficially.
D. all of these answer options are correct.

3. The federal government

A. is the largest taxing entity in the country.
B. is only concerned with international issues.
C. spends heavily on net interest.
D. all of these answer options are correct.

4. State and local governments receive the largest amount of revenue from

A. personal income taxes.
B. property taxes.
C. sales taxes.
D. payroll taxes.

5. The federal government gets most of its revenue from

A. personal income taxes.
B. property taxes.
C. sales taxes.
D. payroll taxes.

6. In a pure market economy,

   A. there is no role for government.
   B. government intervention might be needed.
   C. large markets where people meet to buy and sell are required.
   D. all of these answer options are correct.

7. A government good or service includes

   A. bridges.
   B. parks.
   C. national defense.
   D. all of these answer options are correct.

8. Government output is hard to account for because government

   A. is so large.
   B. provides goods that have no resale value.
   C. keeps secrets about what it produces.
   D. goods are generally not sold or produced in easily measurable units.

9. Economists who study the role of government in the market

   A. agree mostly on the role that the government should play.
   B. study for market problems that the government might help solve.
   C. find that supply and demand graphs never work for the government.
   D. none of these answer options are correct.

10. Economics

   A. started as a business application.
   B. can never be defined.
   C. is the study of unlimited wants but limited resources.
   D. has no "real world" relevance.

11. Taxes

   A. are mandatory payments.
   B. are necessary for financing government expenditures.
   C. do not directly relate to the benefit of government goods and services received.
   D. all of these answer options are correct.

12. Education is

A. generally financed at the state and local level.
B. too expensive for the federal government.
C. generally financed at the federal level.
D. financed on a voluntary basis.

13. Politics

A. play no role in public finance.
B. influence government decisions.
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14. Individuals

A. are too small to matter in macroeconomic decision making.
B. need to participate in a democracy.
C. make up the government.
D. are too small to matter in macroeconomic decision making and need to participate in a democracy.
E. need to participate in a democracy and make up the government.

15. The unified budget is

A. a budget that includes all nations.
B. a document which itemizes all the federal government's expenditures and revenues.
C. a document that accounts for all spending by states.
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16. In 2012 the federal budget was almost

A. 1 million pages long.
B. 17 pages long.
C. 1,300 pages long.
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17. Social insurance has become an increasingly large portion of federal taxes because of the "Baby Boomer" generation.

A. True
B. False
C. Uncertain

18. A very small portion of government expenditures is financed by taxes.

A. True
B. False
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19. In 2011 national defense was just as large a general expenditure as Social Security.

A. True
B. False
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20. The Constitution of the United States says nothing about state economic activity.

A. True
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21. The taxes paid by citizens are directly related to the benefit of government goods and services received.

A. True
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22. Interest on the national debt, as a percentage of federal expenditures, has increased significantly since 1965.

A. True
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23. Local governments rely heavily on property taxes.

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24. Government is designed to handle problems not addressed by the private sector.

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25. Expenditures, as a percentage of GDP for the United States, are not very different than those of other industrialized nations.

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26. Payroll taxes are a major financing tool at the federal level.

A. True
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27. In 2011 the federal government spent 345.8 billion dollars on income security.

A. True
B. False
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28. Personal income and Social Security payroll taxes are currently the largest sources of government revenue.

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## Essay Questions

29. Write an essay discussing some of the reasons that federal expenditures for Social Security have increased since 1965.

30. Do you think it is correct policy that the federal government is not required to finance all of its expenditures with tax revenues and is allowed to borrow? What are the implications of this policy?

31. Why do/should we care that federal expenditures are becoming an increasingly larger portion of GDP?

32. Discuss your views on government intervention regarding tobacco consumption.

# Chapter 01 Introduction Answer Key

## Multiple Choice Questions

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*Difficulty: 1 Easy*
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## Essay Questions

29. Write an essay discussing some of the reasons that federal expenditures for Social Security have increased since 1965.

Federal expenditures for Social Security have increased since 1965 for several reasons, including increases in the number of persons entitled to benefits and the introduction of Medicare and other programs.

*AACSB: Reflective Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Topic: Government at a Glance*

30. Do you think it is correct policy that the federal government is not required to finance all of its expenditures with tax revenues and is allowed to borrow? What are the implications of this policy?

Answers will vary, but financing out of current spending ensures that there are no deficits at the end of the fiscal year. However, in times of crisis, such as war, this type of financing would limit the government's ability to accomplish its stated goals.

*AACSB: Analytic*
*Blooms: Evaluate*
*Difficulty: 3 Hard*
*Topic: Government at a Glance*

31. Why do/should we care that federal expenditures are becoming an increasingly larger portion of GDP?

We should care that federal expenditures are becoming an increasingly larger portion of GDP because of public sector crowding out.

*AACSB: Analytic*
*Blooms: Analyze*
*Difficulty: 3 Hard*
*Topic: Government at a Glance*

32. Discuss your views on government intervention regarding tobacco consumption.

As with many social issues, tobacco consumption will not only impact the health of the population but the ability of people to work and be productive members of society. Some will argue that this is a private issue and the government has no role in regulating people treat their own bodies but others will counter that the impacts are not just to the consumer but to third parties also.

*AACSB: Analytic*
*Blooms: Analyze*
*Difficulty: 3 Hard*
*Topic: Government at a Glance*