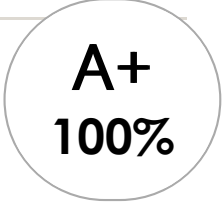


7 Multiple choice questions



A+
100%

1. occurs where government spending is financed through borrowing from the private sector, which puts upward pressure on interest rates and 'crowds out' private sector investors who cannot borrow at the higher interest rate
 - a. the budget
 - b. fiscal policy
 - c. **CORRECT: crowding out effect**
 - d. budget deficit

2. is a macroeconomic policy that can influence resource allocation, redistribute income and reduce the fluctuations of the business cycle; its instruments include government spending and taxation and the budget outcome
 - a. **CORRECT: fiscal policy**
 - b. budget deficit
 - c. a public good
 - d. the budget

3. usually financed through borrowing from the private sector, which reduces national saving and may put upward pressure on interest rates
 - a. the budget
 - b. crowding out effect
 - c. fiscal policy
 - d. **CORRECT: budget deficit**

4. an item that private firms are unwillingly to provide as they are not able to restrict usage and benefits to those willing to pay for the good; because of this governments generally provide these goods
 - a. fiscal policy
 - b. **CORRECT: a public good**
 - c. the budget
 - d. budget deficit

5. economic policies designed to smooth fluctuations in the business cycle; macroeconomic policies such as fiscal policy and monetary policy are usually used as counter-cyclical policies
 - a. budget deficit
 - b. **CORRECT: counter-cyclical policies**
 - c. fiscal policy
 - d. automatic stabilisers

6. the tool of the government for the exercise of fiscal policy; it shows the government's planned expenditure and revenue for the next financial year
 - a. fiscal policy
 - b. a public good
 - c. budget deficit
 - d. **CORRECT: the budget**

7. the policy instruments in the government's budget that counterbalance economic activity; in a boom period, they decrease economic activity and in a recession, they increase economic activity; the most common examples are transfer payments and progressive tax system
 - a. a public good
 - b. **CORRECT: automatic stabilisers**
 - c. fiscal policy
 - d. budget deficit