

Fiscal Policy: Problems

1. True or False? The United States federal national debt is over \$17 trillion.
2. True or False? If the government must finance a \$100 billion deficit, it must issue bonds with a face value of \$100 billion.
3. True or False. If a country always has a budget deficit, then the debt to GDP ratio must always grow.
4. Suppose that the demand curve for bonds is very steep. How does this affect the potential for “crowding out.”
5. True or False? The Great Recession occurred as part of a U.S. sovereign debt crisis.
6. Using the AS/AD model, illustrate how a sovereign debt crisis may lead to lower output.
7. How can default help a government balance its budget? Does it always allow a government to balance its budget?
8. If wages are flexible in the AS/AD model, what do the tax and government spending multipliers equal?
9. Why might the tax and government spending multipliers be larger during recessions?