Fiscal Policy: Key

1. The total debt is the amount of outstanding government debt, regardless of who holds it. As of 2025, this equaled $36.2 trillion. The debt held by the public excludes intragovernmental debt where one part of the government owes money to another part (such as Social Security and Medicare). As of 2025, this equaled #29.0 trillion.

2. Government spending is part pf aggregate output. If G increases by $1, and nothing else changes, then Y also increases by $1. By raising Y, however, the initial change in Y might also lead to increases in consumption so that the total increase in output is bigger than the change in government spending.

Increasing government spending also leads to effects that reduce output. It leads to higher inflation which may reduce consumption and investment. It may also work to "crowd out" private investment, which reduces output. It is possible that these effects might be large enough to cause a negative multiplier.

3. False. First the tax multiplier is usually negative. Second, there is no reason to believe that it is close to -1.

4. There are two basic ways. First, it can crowed out private lending by raising interest rates. This occurs because sovereign debt increases the supply of bonds, lowering their price and raising interest rates. This then reduces investment (and maybe consumption). Second, in extreme cases it can lead to a sovereign debt crisis where the government cannot role over its debt.

5. Sovereign debt crises often occur during recessions. Unable to role over its debt, a government si faced with a set of bad options, each of which might make a recession worse. It can default (see #7), engage in contractionary fiscal policy, which further reduces output, or it can finance its deficits through printing money. The latter option risks significant inflation.

6. First, much of the governments debt is often owned by its own citizens who will suffer. Second, default may limit the government's ability to borrow. Third, default will not eliminate a country's current budget deficit, it will only affect its stock of debt.

7. False, this is a fringe view (known as modern monetary theory). Most economists believe that high debt levels are a problem for the reasons outlined in #4-6. Although printing money is one option during a sovreign debt crisis, it is one that comes with serious costs.

8. The government spending multiplier is usually larger (in magnitude) than the tax multiplier. As a result, equal changes to both G and T are exapansionary and shift the AD curve to the right,

9. It depends. This is largely true if our definition of the deficit includes interest on the existing debt.