

Chapter 10 Practice Test

Multiple Choice

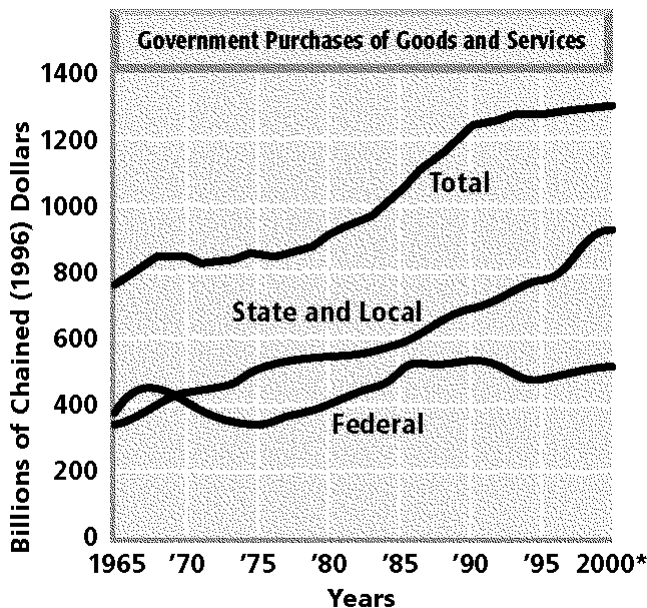
Identify the choice that best completes the statement or answers the question.

- ___ 1. Which act was created in an attempt to trim \$500 billion from the deficit over a five-year period?
- Economic Recovery Tax Act
 - Gramm-Rudman-Hollings Bill
 - Omnibus Budget Reconciliation Act
 - Budget Enforcement Act

One result of the current Social Security debate has been to concentrate the public's mind on the true economic condition of the elderly. . . . While the top 20% of seniors are relatively affluent, . . . almost all of the rest are highly dependent on Social Security. . . . [T]he program provided at least half of the total income of more than 55% of senior citizens and at least 75% of the total income of more than a third. . . . [Social Security] lifted 11.4 million seniors—or nearly half of the 65-and-older population—out of poverty, cutting the elderly's poverty rate from 47.6% to 11.9%.

Source: Adapted from "Social Security is Aptly Named," reprinted from May 10, 1999 issue of *Business Week* by special permission, copyright © 1999 by The McGraw-Hill Companies, Inc.

- ___ 2. Based on the facts given in the passage, approximately how many Americans are age 65 or older?
- approximately 11.4 million
 - approximately 5.7 million
 - slightly under 22.8 million
 - slightly over 22.8 million
- ___ 3. Transfer payments from the government to individuals or other levels of government might be used to
- support Social Security.
 - purchase supplies.
 - maintain the armed forces.
 - pay utilities.
- ___ 4. The first federal budget surplus during the past 45 years occurred in
- 1969.
 - 1972.
 - 1998.
 - 1981.



Source: Standard & Poor's *Author's estimates

- ___ 5. According to the graph, federal government purchases exceeded state and local government purchases in
- 1973
 - 1967
 - 1975
 - 1985

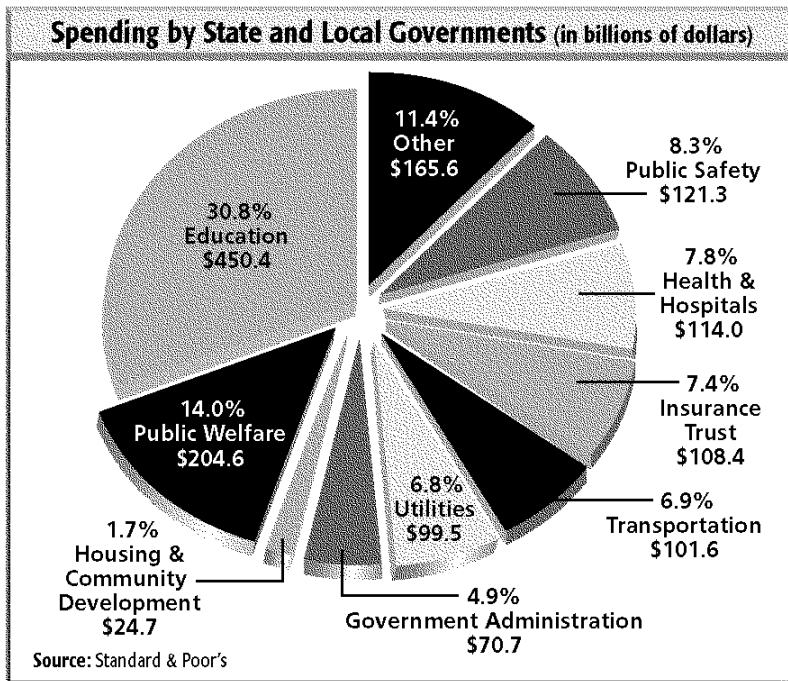
6.

Back in 1940, when the Social Security program was just getting under way, average life expectancy was less than 64 years. The program's designers expected that most people would contribute to the program most of their lives and die before collecting a dime in retirement benefits.... Today, average life expectancy in the United States is more than 75 years.... As life expectancy has soared, birthrates have declined, leaving fewer and fewer workers to support the ballooning number of retirees. In 1950, [the system] was solidly supported with 16 workers paying for each retiree; today, there are just over three workers per beneficiary.

Source: Carrie Lips, Cato Institute's Project on Social Security Privatization.

According to the passage, the increase in average life expectancy has created a problem for the Social Security system because

- a. people are remaining in the workforce longer.
- b. more people are collecting retirement benefits.
- c. younger workers are having a harder time finding jobs.
- d. people are retiring at a younger age.

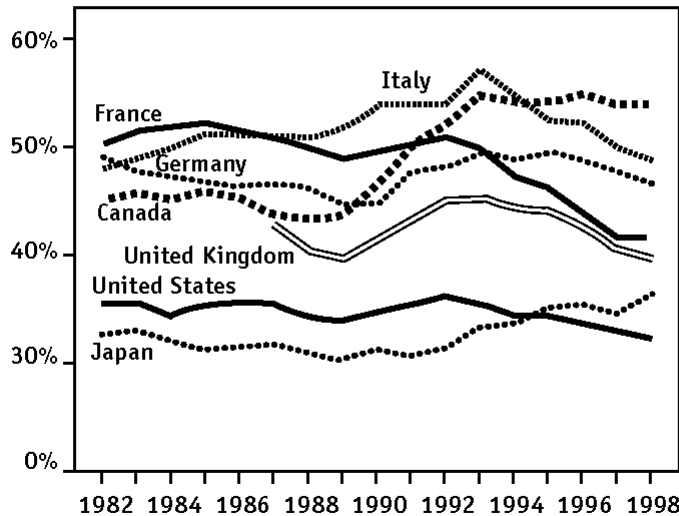


7.

For the year represented by the graph, what total dollar amount did state and local governments spend on their two largest budget items together?

- a. \$687.0 billion
- b. \$655.0 billion
- c. \$616.0 billion
- d. \$571.7 billion

Total Government Spending a Percent of GDP (Selected countries)



8. Source: *A Citizen's Guide to the Federal Budget*, FY 2001. OECD, calendar year data.

Which government shown on the graph spent the largest portion of its country's total output in the 1990s?

- a. Italy
- b. France
- c. Canada
- d. United States

Interest Paid on the Federal Debt 1940-2000		
Decade	Interest Paid (in billions)	Percentage of Federal Expenditures
1940s	\$1.0	11.0%
1950s	\$5.7	13.4%
1960s	\$9.2	10.0%
1970s	\$19.3	9.9%
1980s	\$74.9	12.7%
1990s	\$264.8	21.8%
2000s*	\$370.0	22.5%

*estimates

Source: *Statistical Abstract of the United States*.

9. According to the table, the interest on the federal debt made up the lowest percentage of federal expenditures in what decade?

- a. 1940s
- b. 1950s
- c. 1960s
- d. 1970s

Chapter 10 Practice Test

Answer Section

MULTIPLE CHOICE

1. ANS: C PTS: 1 DIF: Challenging
REF: Learn more about this question in Economics Principles and Practices, page 283
2. ANS: C PTS: 1 DIF: Average
REF: Learn more about this question in Economics Principles and Practices, pages 269-270
3. ANS: A PTS: 1 DIF: Average
REF: Learn more about this question in Economics Principles and Practices, page 263
4. ANS: A PTS: 1 DIF: Average
REF: Learn more about this question in Economics Principles and Practices, page 277
5. ANS: B PTS: 1 DIF: Easy
REF: Learn more about this question in Economics Principles and Practices, page 262
6. ANS: B PTS: 1 DIF: Easy
REF: Learn more about this question in Economics Principles and Practices, pages 269-270
7. ANS: B PTS: 1 DIF: Average
REF: Learn more about this question in Economics Principles and Practices, page 273
8. ANS: A PTS: 1 DIF: Easy
REF: Learn more about this question in Economics Principles and Practices, page 280
9. ANS: D PTS: 1 DIF: Easy
REF: Learn more about this question in Economics Principles and Practices, page 271