

2. Budget deficits and increasing federal debt are perennial concerns for national policymakers.
  - a. Define budget deficit.
  - b. Define federal debt.
  - c. Describe two negative consequences of a large federal debt.

## □ Answers and Explanations

### Multiple-Choice Questions

1. Congress's authority to levy an income tax comes from which of the following?
  - (a) is incorrect because the interstate commerce clause did not give Congress the authority to levy an income tax.
  - (b) is correct because the Sixteenth Amendment, ratified in 1913, explicitly gives Congress the authority to levy a tax on income.**
  - (c) is incorrect because the Budget Act of 1974 did not give Congress the authority to levy an income tax.
  - (d) is incorrect because the Bill of Rights did not give Congress the authority to levy an income tax.
  - (e) is incorrect because the *Marbury v. Madison* did not give Congress the authority to levy an income tax.

*Page reference: 446, AP Topic: Policymaking in a federal system*

2. The institution responsible for compiling the president's budget proposal is the
  - (a) is incorrect because the Department of the Treasury is not responsible for compiling the president's budget proposal.
  - (b) is incorrect because the Congressional Budget Office is not responsible for compiling the president's budget proposal.
  - (c) is incorrect because the Senate Appropriations Committee is not responsible for compiling the president's budget proposal.
  - (d) is correct because the Office of Budget and Management was established to coordinate the budget proposals of all government agencies into the president's final proposal. It has a significant amount of budgetary power, but this is checked by Congress's approval of the president's nominee for its director.**

(e) is incorrect because the Council of Economic Advisors is not responsible for compiling the president's budget proposal.

*Page reference: 461–466, AP Topic: Policymaking in a federal system*

3. The largest contribution to federal revenue comes from

(a) is incorrect because it is an inaccurate response to the prompt.

(b) is incorrect because it is an inaccurate response to the prompt.

(c) is incorrect because it is an inaccurate response to the prompt.

**(d) is correct because the three major sources of federal revenue are individual income, corporate, and social security insurance taxes. Of these, the individual income tax provides the most revenue for the federal government. Nearly half of all federal revenues are generated by personal income taxes.**

(e) is incorrect because it is an inaccurate response to the prompt.

*Page reference: 446–453, AP Topic: Policymaking in a federal system*

4. All of the following statements accurately describe the data in Figure 13.2 on page 448 of the textbook EXCEPT

(a) is incorrect because it is an inaccurate description of the graph.

(b) is incorrect because it is an inaccurate description of the graph.

(c) is incorrect because it is an inaccurate description of the graph.

**(d) is correct because the projected portion of the graph (with dashed lines) shows all sources of revenue increasing. The rapid rise in social insurance taxes is demonstrated by its greater slope compared to other sources of revenue. Federal revenue declined between 2001 and 2004.**

(e) is incorrect because it is an inaccurate description of the graph.

*Page reference: 448, AP Topic: Policymaking in a federal system*

5. Which of the following statements is true about U.S. budget deficits?

(a) is incorrect because it is an inaccurate description of U.S. budget deficits.

(b) is incorrect because it is an inaccurate description of U.S. budget deficits.

**(c) is correct because large budget deficits make the U.S. government more financially dependent on foreign investors, governments as well as individuals. Foreign investors currently hold one-fifth of the U.S. national debt.**

(d) is incorrect because it is an inaccurate description of U.S. budget deficits.

(e) is incorrect because it is an inaccurate description of U.S. budget deficits.

*Page reference: 445–460, AP Topic: Policymaking in a federal system*

6. Two conditions associated with the dramatic government growth in the United States over the past half century are

**(a) is correct because two conditions associated with government growth in the U.S. are the rise in the national security state and the rise in the social service state. New military challenges and the cost of advanced technology are factors in the rising cost of the military state. Social service entitlements represent the largest expenditure in the federal budget.**

(b) is incorrect because it is an inaccurate response to the prompt.

(c) is incorrect because it is an inaccurate response to the prompt.

(d) is incorrect because it is an inaccurate response to the prompt.

(e) is incorrect because it is an inaccurate response to the prompt.

*Page reference: 445–460, AP Topic: Policymaking in a federal system*

7. Which of the following initiates the budget process?

(a) is incorrect because the House Ways and Means Committee does not initiate the budget process.

**(b) is correct because budgets are produced through a long and complex process that begins and ends with the president and has Congress squarely in the middle. The president submits a budget to Congress for consideration and decides whether to accept or reject the budget that ultimately emerges from Congress.**

(c) is incorrect because the Senate Finance Committee does not initiate the budget process.

(d) is incorrect because the Congressional Budget Office does not initiate the budget process.

(e) is incorrect because the Council of Economic Advisors does not initiate the budget process.

*Page reference: 454–460, AP Topic: Policymaking in a federal system*

8. The biggest category of federal expenditures is spending for

(a) is incorrect because foreign aid is not the biggest category of federal expenditures.

(b) is incorrect because salaries and benefits for public employees is not the biggest category of federal expenditures.

(c) is incorrect because interest on the national debt is not the biggest category of federal expenditures.

(d) is incorrect because national defense is not the biggest category of federal expenditures.

**(e) is correct because the biggest category of federal expenditures is spending for the elderly and the poor.**

*Page reference: 454–460, AP Topic: Policymaking in a federal system*

9. All of the following are examples of entitlement programs EXCEPT

(a) is incorrect because it is an example of an entitlement program.

(b) is incorrect because it is an example of an entitlement program.

**(c) is correct because entitlement programs are a form of mandatory spending, as everyone entitled to the benefits of the program must be paid. Congress cannot control these expenditures unless it changes the eligibility requirements of the program, which it is unlikely to do unless such measures are absolutely necessary. Defense contracts clearly do not fit this definition.**

(d) is incorrect because it is an example of an entitlement program.

(e) is incorrect because it is an example of an entitlement program.

*Page reference: 460, AP Topic: Policymaking in a federal system*

10. Which of the following conclusions may be drawn from the graph on page 450 of your textbook?

**(a) is correct because the deficit was at its peak when President Clinton was elected in 1992. It decreased dramatically throughout the 1990s, however, and disappeared completely in 1998, when the United States experienced its first budget surplus in 30 years. The deficit fluctuated significantly under President George W. Bush.**

(b) is incorrect because it is an inaccurate assessment of the graph.

(c) is incorrect because it is an inaccurate assessment of the graph.

(d) is incorrect because it is an inaccurate assessment of the graph.

(e) is incorrect because it is an inaccurate assessment of the graph.

*Page reference: 450, AP Topic: Policymaking in a federal system*

11. All the money borrowed by the federal government over the years and still outstanding is known as
- (a) is incorrect because federal revenue is an inaccurate selection for the prompt.
  - (b) is correct because the national debt is the total from the first presidency down to the present, which today totals about \$17.5 trillion.**
  - (c) is incorrect because tax expenditure is an inaccurate selection for the prompt.
  - (d) is incorrect because tax reduction is an inaccurate selection for the prompt.
  - (e) is incorrect because entitlement is an inaccurate selection for the prompt.

*Page reference: 449, AP Topic: Policymaking in a federal system*

12. Government spending determined by how many eligible beneficiaries there are for a program which cannot be easily controlled are known as
- (a) is incorrect because entitlements is an inaccurate selection for the description provided.
  - (b) is incorrect because incrementalism is an inaccurate selection for the description provided.
  - (c) is incorrect because revenue is an inaccurate selection for the description provided.
  - (d) is correct because uncontrollable expenditures are expenditures that are determined by how many eligible beneficiaries there are for a program or by previous obligations of the government and that Congress therefore cannot easily control.**
  - (e) is incorrect because controlled expenditures is an inaccurate selection for the description provided.

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13. Policies for which Congress has obligated itself to pay a certain level of benefits to a certain number of recipients are known as
- (a) is correct because entitlements are a claim for government funds that cannot be changed without violating the rights of the claimant. Social Security benefits are an example.**
  - (b) is incorrect because incrementalism is an inaccurate selection for the prompt.
  - (c) is incorrect because revenue is an inaccurate selection for the prompt.
  - (d) is incorrect because uncontrollable expenditure is an inaccurate selection for the prompt.
  - (e) is incorrect because controlled expenditure is an inaccurate selection for the prompt.

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14. The body which advises Congress on the probable consequences of its budget decisions is the
- (a) is incorrect because it is an inaccurate selection for the definition provided.
- (b) is incorrect because it is an inaccurate selection for the definition provided.
- (c) is correct because the Congressional Budget Office is an agency of Congress that analyzes presidential budget recommendations and estimates the costs of proposed legislation. It is a counterweight to the president's Office of Management and Budget.**
- (d) is incorrect because it is an inaccurate selection for the definition provided.
- (e) is incorrect because it is an inaccurate selection for the definition provided.

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15. \_\_\_\_\_ is the description of the budget process in which the best predictor of this year's budget is last year's budget, plus a little more.
- (a) is incorrect because it is an inaccurate selection for the prompt.
- (b) is incorrect because it is an inaccurate selection for the prompt.
- (c) is incorrect because it is an inaccurate selection for the prompt.
- (d) is correct because incrementalism is the process of preparing a budget using the previous year's budget or actual performance as a basis with incremental amounts added for the new budget period.**
- (e) is incorrect because it is an inaccurate selection for the prompt.

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16. \_\_\_\_\_ is the congressional process through which program authorizations are revised to achieve savings.
- (a) is incorrect because estimation is an inaccurate selection for the definition provided.
- (b) is incorrect because revenue sharing is an inaccurate selection for the definition provided.
- (c) is incorrect because deficit spending is an inaccurate selection for the definition provided.
- (d) is incorrect because incrementalism is an inaccurate selection for the definition provided.
- (e) is correct because reconciliation is the Congressional process through which program authorizations are revised to achieve required savings. It usually also**

includes tax or other revenue adjustments. This usually comes near the end of the budgetary process, although occasionally the president and Congress have sought to use it in place of the regular lawmaking process.

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17. When Congress is unable to pass appropriation bills, these allow agencies to continue spending at the level of the previous year.
- (a) is incorrect because it is an inaccurate response to the prompt.
- (b) is incorrect because it is an inaccurate response to the prompt.
- (c) is correct because when Congress has not been able to reach agreement and pass appropriations bills at all, it has instead resorted to continuing resolutions, which are laws that allow agencies to spend at the previous year's level.**
- (d) is incorrect because it is an inaccurate response to the prompt.
- (e) is incorrect because it is an inaccurate response to the prompt.

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18. An act of Congress that establishes, continues, or changes a discretionary government program or entitlement is known as
- (a) is incorrect because reconciliation is an inaccurate selection for the definition provided.
- (b) is incorrect because appropriation bill is an inaccurate selection for the definition provided.
- (c) is incorrect because continuing resolution is an inaccurate selection for the definition provided.
- (d) is incorrect because budget resolution is an inaccurate selection for the definition provided.
- (e) is correct because an authorization bill is an act of Congress that establishes or changes a government program. Authorizations specify program goals and, for discretionary programs, set the maximum amount that they may spend.**

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19. Losses in revenue which result from special exemptions, exclusions, or deductions are known as
- (a) is correct because revenue losses that result from special exemptions, exclusions, or deductions allowed by federal tax law. These expenditures represent the difference**

between what the government actually collects in taxes and what it would have collected without special exemptions.

(b) is incorrect because tax reduction is an inaccurate selection for the definition provided.

(c) is incorrect because uncontrollable expenditure is an inaccurate selection for the definition provided.

(d) is incorrect because entitlement is an inaccurate selection for the definition provided.

(e) is incorrect because refund is an inaccurate selection for the definition provided.

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20. Tax expenditures were established by

(a) is incorrect because the Constitution did not establish tax expenditures.

**(b) is correct because the Budget Act of 1974 defined tax expenditures, which amount to the subsidies for different activities.**

(c) is incorrect because the Social Security Act did not establish tax expenditures.

(d) is incorrect because the 16th Amendment did not establish tax expenditures.

(e) is incorrect because the Reagan Administration did not establish tax expenditures.

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## Free-Response Questions

*This rubric provides examples of many, but not all, of the possible correct responses to the free-response questions.*

1. The rise of the national security state and the rise of the social service state have long been associated with government growth and budget deficits in the United States.
  - a. Briefly describe what is meant by “growth in the national security state.”
    - “Growth in the national security state” refers to the costs of supporting the military and national security establishment. The U.S. devoted a large share of its budget to military expenditures during World War II, the Cold War, and the immediate post-9/11 period.
  - b. Briefly describe what is meant by “growth in the social service state.”



- “Growth in the social service state” refers to dramatic increases in social welfare expenditures since the 1960s. Social welfare entitlement programs now make up the largest share of the federal budget.
- c. Identify one piece of legislation passed by Congress since 1970 that was designed to reform the budget process and control deficit spending by the government.
- The Congressional Budget and Impoundment Act and the Gramm-Rudman-Hollings Act were designed to reform the budget process and control deficit spending by the government. The Congressional Budget and Impoundment Act was designed to make Congress less dependent on the president by giving it some independent expertise on budget matters. It allows Congress to set and meet its own budget goals and bring spending in line with revenues.
- d. For the legislation you identified in “c,” briefly explain one goal it was designed to accomplish.
- The Balanced Budget and Emergency Deficit Control Act was an attempt by Congress to gain control over growing budget deficits. It set maximum allowable deficits for each year. If Congress failed to meet the deficit goals, automatic across-the-board spending cuts were to be ordered by the president.
2. Budget deficits and increasing federal debt are perennial concerns for national policymakers.
- a. Define budget deficit.
- A budget deficit occurs when expenditures exceed revenues.
- b. Define federal debt.
- The federal debt is the cumulative amount of money borrowed by the federal government that is still outstanding.
- c. Describe two negative consequences of a large federal debt.
- A large federal deficit can cause several problems:
    - Government borrowing to service the debt may make it harder for individuals and businesses to get loans at favorable rates. The competition to borrow money increases interest rates, which makes it more difficult for businesses to invest in

new equipment and buildings and create more jobs. Higher interest rates raise the costs to individuals of financing mortgages and credit card purchases.

- Large deficits make the American government dependent on foreign investors, individuals, and governments to fund its debt. This is not a favorable position for a global superpower.