

□ Answers and Explanations

Multiple-Choice Questions

1. _____ refer(s) to the “shares” of the national income earned by various groups.
- (a) is incorrect because it is an incorrect choice for the definition provided.
- (b) is correct because income distribution is the way the national income is divided up into “shares” ranging from the poor to the rich; this is a simple definitional question.**
- (c) is incorrect because it is an incorrect choice for the definition provided.
- (d) is incorrect because it is an incorrect choice for the definition provided.
- (e) is incorrect because it is an incorrect choice for the definition provided.

Page reference: 559–560, AP Topic: Policymaking in a federal system

2. Which of the following groups has consistently had the highest rates of poverty?
- (a) is incorrect because it is an inaccurate answer to the question.
- (b) is correct because African Americans have historically and presently had high rates of poverty.**
- (c) is incorrect because it is an inaccurate answer to the question.
- (d) is incorrect because it is an inaccurate answer to the question.
- (e) is incorrect because it is an inaccurate answer to the question.

Page reference: 561–563, AP Topic: Policymaking in a federal system

3. The Social Security program is endangered primarily because
- (a) is incorrect because the birth rate has not significantly increased.
- (b) is incorrect because the program has not lost support.
- (c) is correct because the Social Security dilemma is that the number of Social Security contributors (workers) is growing slowly, while the number of recipients (the retired) is growing rapidly.**
- (d) is incorrect because tax revenue has not significantly been reduced.
- (e) is incorrect because the program is not specifically identified with racial minorities.

Page reference: 569–571, AP Topic: Policymaking in a federal system

4. All of the following are examples of means-tested programs EXCEPT
- (a) is incorrect because TANF is a means-tested program.
 - (b) is incorrect because CHIP is a means-tested program.
 - (c) is incorrect because the Food Stamp program is a means-tested program.
 - (d) is incorrect because Medicaid is a means-tested program.
 - (e) is correct because Social Security is an entitlement program. Entitlement programs benefit certain qualified individuals who are entitled by law, regardless of need.**

Page reference: 559, AP Topic: Policymaking in a federal program

5. The most expensive social welfare program in the United States is
- (a) is correct because it is an entitlement program, Social Security is the most expensive social program in the United States.**
 - (b) is incorrect because AFDC is not the most expensive social welfare program.
 - (c) is incorrect because Food Stamps is not the most expensive social welfare program.
 - (d) is incorrect because SSI is not the most expensive social welfare program.
 - (e) is incorrect because CHIP is not the most expensive social welfare program.

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6. Senior citizens fare better than the poor in social welfare budget battles for which of the following reasons?
- (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; the elderly fare better than the poor in social welfare budget battles because they are more organized, more politically active and better represented than the poor. The elderly are also widely considered to be among the deserving poor.**
 - (e) is incorrect because it is an inaccurate response to the prompt.

Page reference: 558–571, AP Topic: Policymaking in a federal system

7. The value of all goods and services produced by an economy during a specific period of time, such as a year, is called 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 incorrect because it is an inaccurate selection for the definition provided.
 - (d) is correct because gross domestic product (GDP) is defined as the value of all goods and services produced by an economy during a specific period of time, such as a year.**
 - (e) is incorrect because it is an inaccurate selection for the definition provided.

Page reference: 454–455, AP Topic: Policymaking in a federal system

8. One way the government attempts to overcome inflation is by
- (a) is incorrect because it is an inaccurate description of how the government attempts to overcome inflation.
 - (b) is incorrect because it is an inaccurate description of how the government attempts to overcome inflation.
 - (c) is correct because one way the government attempts to overcome inflation is by decreasing the amount of money in banks, which raises loan rates and discourages people from borrowing. The Federal Reserve Board controls how much money is issued from the Federal Reserve Bank to all other banks. When it limits those available funds, banks are forced to offer loans at higher rates. This discourages people from applying for loans, which are one cause of the over-circulation of money.**
 - (d) is incorrect because it is an inaccurate description of how the government attempts to overcome inflation.
 - (e) is incorrect because it is an inaccurate description of how the government attempts to overcome inflation.

Page reference: 550–558, AP Topic: Policymaking in a federal system

9. The economic theory that opposes governmental interference in economic affairs beyond what is necessary to protect life and property is known as
- (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 laissez-faire economics is a theory that opposes governmental interference in economic affairs beyond what is necessary to protect life and property.

(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.

Page reference: 553, AP Topic: Policymaking in a federal system

10. Which of the following statements best describes the significance of the National Labor Relations Act?

(a) is incorrect because it is an inaccurate description of the significance of the National Labor Relations Act.

(b) is correct because the National Labor Relations Act, also known as the Wagner Act, is a 1935 law that guarantees workers the right to unionize and bargain collectively.

(c) is incorrect because it is an inaccurate description of the significance of the National Labor Relations Act.

(d) is incorrect because it is an inaccurate description of the significance of the National Labor Relations Act.

(e) is incorrect because it is an inaccurate description of the significance of the National Labor Relations Act.

Page reference: 482, 494, AP Topic: Policymaking in a federal system

11. All of the following are affected by actions of the Federal Reserve Board EXCEPT

(a) is correct because the Federal Reserve Board has either direct or indirect influence over money supply, interest rates, the availability of jobs, and inflation. It does not have control over the amount of money the government spends.

(b) is incorrect because the FED does affect on the money supply.

(c) is incorrect because the FED does affect on interest rates.

(d) is incorrect because the FED does affect the availability of jobs.

(e) is incorrect because the FED does affect inflation.

Page reference: 553–558, AP Topic: Policymaking in a federal system

12. The economic theory holding that the key task for fiscal policy is to stimulate the supply of goods, as by cutting tax rates, is known as

(a) is correct because supply-side economics, introduced during the Reagan administration, has as its key task to stimulate the supply of goods, not their demand.

(b) is incorrect because protectionism is an inaccurate choice for the definition.

(c) is incorrect because laissez-faire is an inaccurate choice for the definition.

(d) is incorrect because socialism is an inaccurate choice for the definition.

(e) is incorrect because Keynesianism is an inaccurate choice for the definition.

Page reference: 556, AP Topic: Policymaking in a federal system

13. Monetary policy refers to government control of

(a) is incorrect because it is an inaccurate description of monetary policy.

(b) is correct because monetary policy is a form of government regulation in which the nation's money supply and interest rates are controlled to promote economic stability, as distinct from fiscal, in which tax rates and spending are used to promote economic stability.

(c) is incorrect because it is an inaccurate description of monetary policy.

(d) is incorrect because it is an inaccurate description of monetary policy.

(e) is incorrect because it is an inaccurate description of monetary policy.

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14. A recession is

(a) is correct because a recession is a short-term decline in the economy that occurs as investment sags, production falls off, and unemployment increases. It is not caused directly by high levels of government debt, increasing amounts of imports that displace American workers, or by a decrease in the amount of money in banks. It is also not a time when monetary policy is used to increase interest rates to keep people from going further into debt. Typically, the government tries to expand credit.

(b) is incorrect because it is an inaccurate definition of a recession.

(c) is incorrect because it is an inaccurate definition of a recession.

(d) is incorrect because it is an inaccurate definition of a recession.

(e) is incorrect because it is an inaccurate definition of a recession.

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15. Which of the following would be an example of fiscal policy?

(a) is correct because fiscal policy involves government policies on taxes, spending, and debt management. It is used to promote the nation's macroeconomic goals, particularly with respect to employment, price stability, and economic growth. Running a deficit with the goal of encouraging economic growth would be fiscal policy.

(b) is incorrect because it is not an example of fiscal policy.

(c) is incorrect because it is not an example of fiscal policy.

(d) is incorrect because it is not an example of fiscal policy.

(e) is incorrect because it is not an example of fiscal policy.

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16. Government programs providing benefits to qualified individuals regardless of need are known as

(a) is incorrect because it is an inaccurate choice for the definition provided.

(b) is incorrect because it is an inaccurate choice for the definition provided.

(c) is correct because government benefits that all citizens meeting eligibility criteria, such as age or unemployment, are legally “entitled” to receive are known as entitlement programs.

(d) is incorrect because it is an inaccurate choice for the definition provided.

(e) is incorrect because it is an inaccurate choice for the definition provided.

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17. A Federal Reserve open-market operation involves

(a) is incorrect because it is an inaccurate description of the Federal Reserve open market operation.

(b) is incorrect because it is an inaccurate description of the Federal Reserve open market operation.

(c) is incorrect because it is an inaccurate description of the Federal Reserve open market operation.

(d) is incorrect because it is an inaccurate description of the Federal Reserve open market operation.

(e) is correct because when the Federal Reserve engages in the buying and selling of government securities in the securities market, it is engaged in open market operations. Income security programs protect people against loss of income because of retirement, disability, unemployment, or death or absence of the family breadwinner. Government benefits that all citizens meeting eligibility criteria—such as age, income level, or unemployment—are legally “entitled” to receive are referred to as entitlements. The requirements that portions of member banks’ deposits must be retained to back loans made are known as Reserve Requirements. The Discount Rate is the rate of interest at which member banks can borrow money from their regional Federal Reserve Bank.

Page reference: 553–558, AP Topic: Policymaking in a federal system

18. Which of the following indicates that the United States has a mixed economy?

(a) is incorrect because it is an inaccurate description of a mixed economy.

(b) is incorrect because it is an inaccurate description of a mixed economy.

(c) is incorrect because it is an inaccurate description of a mixed economy.

(d) is correct because a mixed economic system is an economic system in which the government is deeply involved, but does not command or control the economy. The Justice Department’s ability to sue monopolistic companies is an indication of the government’s ability to be involved in the economy.

(e) is incorrect because it is an inaccurate description of a mixed economy.

Page reference: 549, AP Topic: Policymaking in a federal system

19. Which of the following statements accurately describes traditional Republican Party economic positions?

I. Republicans place greater emphasis on full employment than Democrats do.

II. Republicans tend to worry about inflation more than Democrats do.

III. Republican economic positions tend to appeal to the working class and unions.

IV. Republicans tend to favor higher income tax rates.

(a) is incorrect because Republicans do not put more emphasis on full employment.

(b) is correct because Republicans tend to worry about inflation more than Democrats do. Republicans generally try to prevent inflation, even at the risk of rising unemployment.

(c) is incorrect because Republican economic positions do not appeal more to the working class and union.

(d) is incorrect because both I and IV are inaccurate descriptions of Republicans.

(e) is incorrect because both I and III are inaccurate descriptions of Republicans.

Page reference: 550–565, AP Topic: Policymaking in a federal system

20. One way the government attempts to overcome inflation is by

(a) is incorrect because it is not a way the government controls inflation.

(b) is incorrect because it is not a way the government controls inflation.

(c) is correct because one way the government attempts to overcome inflation is by decreasing the amount of money in banks, which raises loan rates and discourages people from borrowing. The Federal Reserve Board controls how much money is issued from the Federal Reserve Bank to all other banks. When it limits those available funds, banks are forced to offer loans at higher rates. This discourages people from applying for loans, which are one cause of the over-circulation of money.

(d) is incorrect because it is not a way the government controls inflation.

(e) is incorrect because it is not a way the government controls inflation.

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Free-Response Questions

1. The two major tools for macroeconomic policy are monetary and fiscal policies.

a. Define monetary policy and fiscal policy.

- Fiscal policy and monetary policy are the two main policy tools for the macroeconomy. Fiscal policy is policy regarding taxing and spending. By taxing, the government takes money out of consumers' hands and reduces consumption. Spending does the opposite. By spending too much, the government might create high inflation, but spending too little would keep people from buying goods and services. Fiscal policy is established by the president and Congress through the process of making the budget.

b. Describe how each policy is made at the federal level.

- Monetary policy is policy regulating the amount of money in the economy. More money in the economy lowers interest rates, increasing borrowing and consumption. Less money reduces consumption and, if the economy is overheating, can keep inflation under control. But lowering inflation tends to increase unemployment, and

vice-versa. Monetary policy is made by the Federal Reserve Board of Governors, mainly by setting interest rates.

- c. Describe the major trade-offs in each policy area.
- *Note that the trade-offs for fiscal and monetary policy are not addressed in the textbook. No one source will give you all of the information that you need to answer every question. You should look at as many possible sources as you can in preparing for the AP Exam.*

2. Taxation is as much a social policy as it is a fiscal policy.

- a. Describe the difference between progressive and regressive taxes.
- b. Identify an example of each.
- c. Identify one argument for and one against each type of tax policy.
- There are several types of tax policies. Progressive taxes are taxes in which the percentage of income that one pays increases with the amount of money one makes. The individual income tax is a good example. Some people believe that progressive taxes are unfair to the rich, but others argue that the rich should pay more because they get more benefits from the government. For example, the police protect everyone's property, but the rich have more property to protect.
 - Regressive taxes are taxes in which the poor pay a higher percentage of their income than the rich. Sales taxes are a good example. Even though everyone pays the same tax rate, poor people spend a larger proportion of their income than the rich, who save more of their income. So poor people are taxed on more of their income. Many people believe that this is unfair, but some kinds of economic activity can only be taxed in this way.