**Debt & Deficit**

1. The (National Debt / Federal budget deficit) consists of the accumulation of all Federal

government deficits and surpluses.

1. The (National Debt / budget deficit) is found by subtracting government tax revenues from

government spending in one year.

1. How much is the National Debt now? $
2. If government adhered strictly to an annually balanced budget, government’s budget would tend to (stabilize / destabilize) the economy.
3. The idea of increasing taxes during good times & decreasing them during recessions over the course of the business cycle is the (actual / cyclical adjusted) balanced budget.
4. T F Budget deficits as a percentage of GDP were smaller during the years of WWII.
5. T F Budget surpluses were realized during the late stages of the economic expansion in the 1990’s.
6. The “crowding-out effect” suggests that increases in government spending financed through borrowing will (increase / decrease) the interest rate and (increase / decrease)

private investment.

1. Large budget deficits (increase / decrease) domestic interest rates.
2. T F The implicit liabilities of federal spending are a future debt that must be honored.
3. T F The money in the Social Security trust fund is held in the form of US government bonds but not included in our total debt.

# Debt & Deficit Answer Key

1. The *Federal budget deficit* consists of the accumulation of all Federal government deficits and surpluses.

## The *National Debt* is found by subtracting government tax revenues from government spending in one year.

1. How much is the National Debt now? *The answer will depend upon the date data was pulled. Try this link* [*http://www.brillig.com/debt\_clock/*](http://www.brillig.com/debt_clock/)

## If government adhered strictly to an annually balanced budget, government’s budget would tend to *destabilize* the economy.

1. The idea of increasing taxes during good times & decreasing them during recessions over the course of the business cycle is the *actual* balanced budget.
2. *F* Budget deficits as a percentage of GDP were smaller during the years of WWII.
3. *T* Budget surpluses were realized during the late stages of the economic expansion in the 1990’s.
4. The “crowding-out effect” suggests that increases in government spending financed through borrowing will *increase* the interest rate and *decrease* private investment.
5. Large budget deficits *increase* domestic interest rates.
6. *T* The implicit liabilities of federal spending are a future debt that must be honored.
7. *T* The money in the Social Security trust fund is held in the form of US government bonds but not included in our total debt.