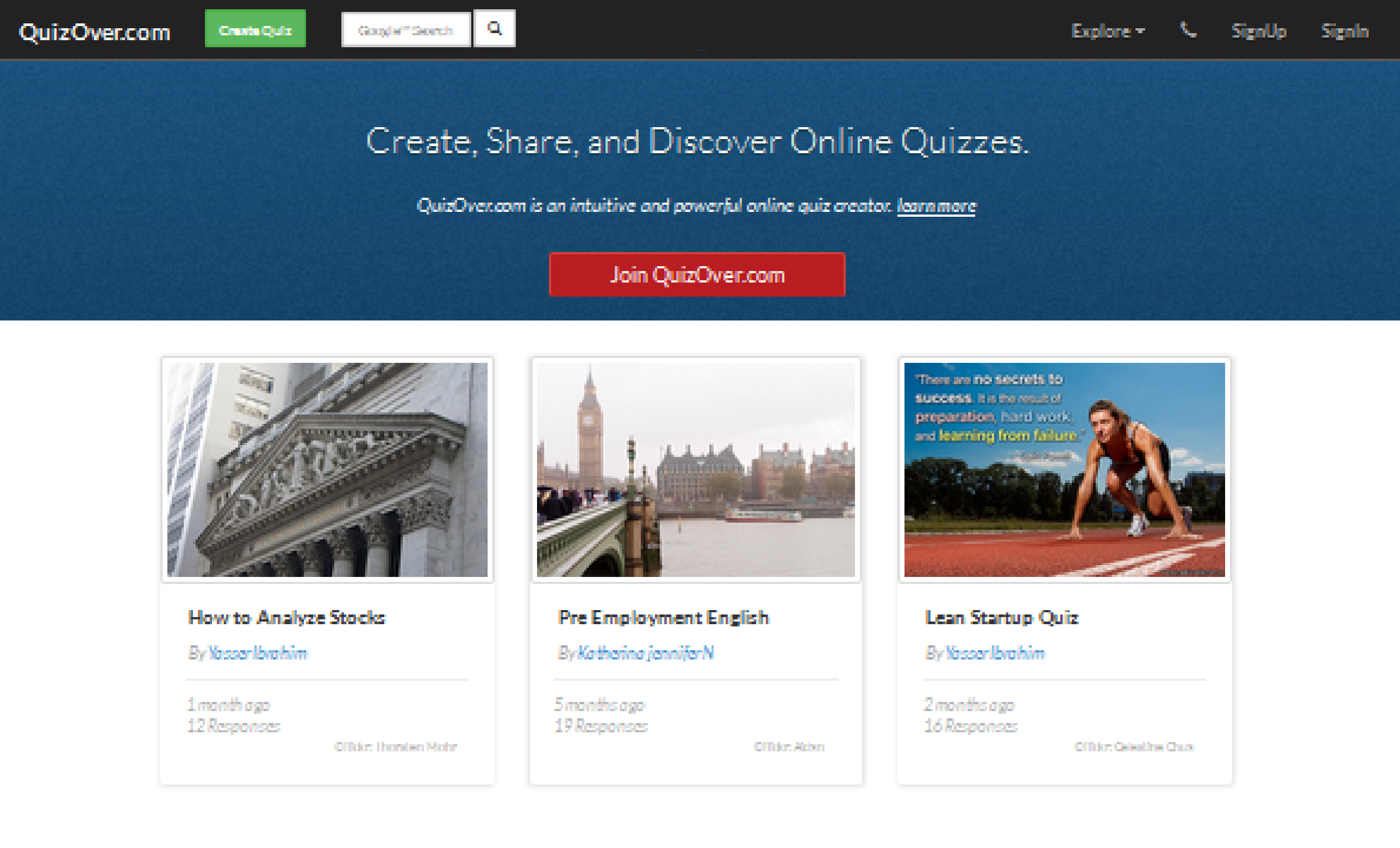
Interventionism Lesson 22: Government Debt

Author: Robert Murphy

Associated Scholar @Mises Institute

Published 2014



Powered by QuizOver.com

The Leading Online Quiz & Exam Creator

Create, Share and Discover Quizzes & Exams

http://www.quizover.com

Disclaimer

All services and content of QuizOver.com are provided under QuizOver.com terms of use on an "as is" basis, without warranty of any kind, either expressed or implied, including, without limitation, warranties that the provided services and content are free of defects, merchantable, fit for a particular purpose or non-infringing.

The entire risk as to the quality and performance of the provided services and content is with you.

In no event shall QuizOver.com be liable for any damages whatsoever arising out of or in connection with the use or performance of the services.

Should any provided services and content prove defective in any respect, you (not the initial developer, author or any other contributor) assume the cost of any necessary servicing, repair or correction.

This disclaimer of warranty constitutes an essential part of these "terms of use".

No use of any services and content of QuizOver.com is authorized hereunder except under this disclaimer.

The detailed and up to date "terms of use" of QuizOver.com can be found under:

http://www.QuizOver.com/public/termsOfUse.xhtml

eBook Content License

Table of Contents

Quiz Permalink: http://www.quizover.com/question/lesson-22-government-debt-7413434

Author Profile: http://www.quizover.com/user/profile/robert.murphy

4. Chapter: Lesson 22: Government Debt

1. Lesson 22: Government Debt Questions

4.1.1. *Explain: "The government deficit is a flow variable, while the deb...

Author: Robert Murphy

*Explain: "The government deficit is a flow variable, while the debt is a stock variable."

- It only makes sense to measure the deficit in reference to a certain duration of time. For example, we can talk about the deficit
  during fiscal year 2010, or during the first three months of calendar year 2009. In contrast, the debt is a measure that applies
  at a particular moment in time. For example, we can talk about the debt as of December 31, 2009. (To understand the flow/
  variable distinction, an example of water might help. If someone is using a hose to fill a backyard pool, the rate at which the
  water shoots out of the hose—say, 5 gallons per minute—is a flow variable. On the other hand, the depth of the water in the
  pool—say, 3 feet—at any given time is a stock variable.)

4.1.2. When the government spends more than it collects in tax revenues, w...

Author: Robert Murphy

When the government spends more than it collects in tax revenues, what can we say about the budget?

- The budget is in deficit.

Check the answer of this question online at QuizOver.com:
Question: When the government spends more than it by Dr. Robert Murphy @Mises

Flashcards:
http://www.quizover.com/flashcards/when-the-government-spends-more-than-it-by-dr-robert-murphy-mises?pdf=3044

Interactive Question:
http://www.quizover.com/question/when-the-government-spends-more-than-it-by-dr-robert-murphy-mises?pdf=3044

4.1.3. *Is it possible for the government to sell new bonds in a given yea...

Author: Robert Murphy

*Is it possible for the government to sell new bonds in a given year, even if the budget is in surplus?

- Yes. If the government carries forward an existing debt that is larger than the surplus, then the government ends the period
  with a debt (though a lower one). If some of the carried debt had to be "rolled over" into new bonds, then the government
  would have issued new bonds to replace the maturing ones (which were not being paid off with the surplus). For example,
  in the student text's table, in the year 2012 the government runs a $25 billion surplus, but also (re)issues $75 billion worth of new bonds.

Check the answer of this question online at QuizOver.com:
Question: Is it possible for the government to sell by Dr. Robert Murphy @Mises

Flashcards:
http://www.quizover.com/flashcards/is-it-possible-for-the-government-to-sell-by-dr-robert-murphy-mises?pdf=3044

Interactive Question:
http://www.quizover.com/question/is-it-possible-for-the-government-to-sell-by-dr-robert-murphy-mises?pdf=3044

4.1.4. Are government budget deficits directly inflationary?

Author: Robert Murphy

Are government budget deficits directly inflationary?

- No, because by itself a budget deficit doesn't create new money.

Check the answer of this question online at QuizOver.com:
Question: Are government budget deficits directly by Dr. Robert Murphy @Mises

Flashcards:
http://www.quizover.com/flashcards/are-government-budget-deficits-directly-by-dr-robert-murphy-mises?pdf=3044

Interactive Question:
http://www.quizover.com/question/are-government-budget-deficits-directly-by-dr-robert-murphy-mises?pdf=3044

Author: Robert Murphy

*Does it help future generations by raising taxes now to close a budget deficit?

- No, because the actual mechanisms through which government budget deficits impoverish future generations—lower
capital formation, distortions to the future economy when taxes are raised, etc.—are applicable to present tax hikes.

Check the answer of this question online at QuizOver.com:
Question: Does it help future generations by raising Dr. Robert Murphy @Mises

Flashcards:
http://www.quizover.com/flashcards/does-it-help-future-generations-by-raising-dr-robert-murphy-mises?pdf=3044

Interactive Question:
http://www.quizover.com/question/does-it-help-future-generations-by-raising-dr-robert-murphy-mises?pdf=3044

4.1.6. Could a government run a budget surplus while still having a large ...

Author: Robert Murphy

Could a government run a budget surplus while still having a large debt? Explain.

- Yes, because a budget surplus just refers to the government spending less than it collects in taxes, for a given time period
  (such as a year). The government could do this, while still carrying a large debt that it accumulated from years and years of past deficits.
  Sample Partial Credit Answer
  Yes.

Check the answer of this question online at QuizOver.com:
Question: Could a government run a budget surplus by Dr. Robert Murphy @Mises

Flashcards:
http://www.quizover.com/flashcards/could-a-government-run-a-budget-surplus-by-dr-robert-murphy-mises?pdf=3044

Interactive Question:
http://www.quizover.com/question/could-a-government-run-a-budget-surplus-by-dr-robert-murphy-mises?pdf=3044

4.1.7. If the government retires some of its outstanding bonds during the ...

Author: Robert Murphy

If the government retires some of its outstanding bonds during the year, does that mean it's necessarily running a budget surplus? Explain.

- No, because in any given year, some portion of the outstanding bonds will probably mature, meaning the government will have
  to return the principal to those lenders. Yet the government can re-enter the bond market and borrow that same principal back
  again, keeping the outstanding debt at the same level (looking at just these transactions). This process can occur regardless of
  whether the government happens to be also running a deficit or surplus that year.
  Sample Partial Credit Answer
  No, it could be running a deficit and still have to pay off some of the existing bondholders.

4.1.8. Explain the accurate sense in which government deficits today make ...

Author: Robert Murphy

Explain the accurate sense in which government deficits today make our grandchildren poorer.

- Deficits today are financed by borrowing money, which drives up interest rates and diverts savings out of the private sector. Other
  things equal, this reduces the amount of private sector investment, meaning that our grandchildren end up inheriting a smaller
  collection of machines, tools, and equipment. This reduction in capital goods makes their labor less productive and lowers their
  standard of living (relative to what they otherwise would have achieved).
  Sample Partial Credit Answer
  Government deficits reduce private investment.

Check the answer of this question online at QuizOver.com:
Question: Explain the accurate sense in which government by Dr. Robert Murphy

Flashcards:
http://www.quizover.com/flashcards/explain-the-accurate-sense-in-which-government-by-dr-robert-murphy?pdf=3044

Interactive Question:
http://www.quizover.com/question/explain-the-accurate-sense-in-which-government-by-dr-robert-murphy?pdf=3044