

Quiz: Responses to COVID-19 Answer Key

1. Why is expansionary fiscal policy used in response to crises such as COVID-19?
 - a. Decreases aggregate demand
 - b. Increases real GDP**
 - c. Decreases employment
 - d. Increases inflation
2. Which of the following is NOT an example of a fiscal policy response to the COVID-19 crisis?
 - a. \$1200 stimulus checks
 - b. Increased unemployment benefits
 - c. Fed lowering target interest rates**
 - d. Government loans to small businesses
3. If an individual's MPC is .67, they would spend
 - a. \$67 if given \$100**
 - b. \$33 if given \$100
 - c. \$0.67 if given \$100
 - d. \$167 if given \$100
4. As household income increases, what happens to the household's marginal propensity to consume (MPC)?
 - a. Increases
 - b. Decreases**
 - c. Remains the same as it is a constant value
 - d. Increases at first, then decreases at very high income levels

5. As the marginal propensity to consume (MPC) increases, what happens to the spending multiplier?
- a. Increases
 - b. Decreases
 - c. Stays the same
 - d. Becomes a spending divider

6. *If the MPC = .4 (*Include only if calculating multipliers from MPC was discussed.)
- a. The government spending multiplier = 1.67
 - b. The tax multiplier = 1.67
 - c. The government spending multiplier = 2.5
 - d. The tax multiplier = 2.5

7. When evaluating the effectiveness of a fiscal policy, what factors should be considered? Explain.

Effective policy is decided upon and implemented in a timely fashion, targeted toward the people that need it the most and funds are put in the hands of people that will spend it (high MPC and therefore multiplier), and is temporary in order to maintain market incentives.

8. Why do so many economists advocate for a second stimulus check during the COVID-19 recession? Explain the argument for why the checks should be given only to individuals earning less than \$40,000 per year.

The government spending would increase AD which would grow the economy. Targeting lower income people who tend to have higher MPC would have a larger multiplying effect.