

Chapter One

Examination Questions

1. Bain Educational operates an elementary school in Big Bucks, Kansas. It is open to any student in the local school district and the school is financed by a property tax levied by the local school district. This represents an example of:
 - a. public provision and public production
 - b. public provision and private production
 - c. private provision and private production
 - d. private provision and public production

2. Which of the following arguments is based on the concept of adverse selection?
 - a. The U.S. Military needs higher pay to attract the best personnel.
 - b. Private medical insurance companies seek to exclude those most likely to need healthcare.
 - c. Only the national government can successfully conduct macroeconomic stabilization policies.
 - d. Mosquito abatement is a public good.

3. Which of the following would be described as a common pool resource?
 - a. A can of soda
 - b. An aquifer
 - c. National defense
 - d. A movie theatre

4. Which of the following is an application of the principle of moral hazard?
 - a. People build homes in areas subject to severe flood damage when federally-subsidized insurance is available.
 - b. Inappropriate lyrics are available for downloading through the Internet when regulations are not enforced.
 - c. Actions by one individual have an impact on innocent bystanders.
 - d. None of the above.

5. Toll goods are characterized by:
 - a. joint use and exclusion not feasible.
 - b. alternate (or competitive) use and exclusion not feasible.
 - c. joint use and exclusion feasible.
 - d. alternate (or competitive) use and exclusion feasible.

6. Non-appropriability consists of the following two aspects:
 - a. nonsubsidization and nondistribution.
 - b. nonexclusion and nonexhaustion.
 - c. taxing and spending.
 - d. none of the above.

7. A public project produces the following pattern of individual benefits and costs for the people influenced by the project.

Individual	Benefit	Cost Share
A	\$8,000	\$7,000
B	\$6,000	\$5,000
C	\$10,000	\$9,000
D	\$4,000	\$6,000
E	\$2,000	\$6,000
Total	\$30,000	\$33,000

The project:

- a. passes the Pareto criterion but is not economically feasible.
- b. would pass a majority vote but not the Pareto criterion.
- c. passes the criterion of economic feasibility, but would not pass majority vote.
- d. passes the pareto criterion but would not pass a majority vote.

8. If a good is characterized by easy exclusion but many may concurrently use it without reducing the amount available for others, the good is a:
- private good.
 - common property resource.
 - toll good.
 - public good.
9. Which is not a reason for privatizing government services?
- To increase production efficiency.
 - To improve service to the public.
 - To raise cash.
 - All of the above are reasons to privatize.
10. Logrolling is the process where:
- one legislator trades his/her vote on one issue in exchange for the vote of another legislator on a second issue.
 - campaign contributions are used to secure a legislator's vote on a particular issue.
 - media campaigns are initiated by special interest groups to sway public opinion and subsequently legislators votes on issues.
 - unrelated amendments are attached to pending legislation to secure its passage.

Chapter Two

Examination Questions

1. Which of the following is an accurate statement about the relative size of government purchases and government spending?
 - a. Because spending is the same as purchasing, the measures must be the same.
 - b. Purchases will be greater than spending because of deficit and surplus adjustments.
 - c. Spending includes transfer payments like social security, but purchases do not.
 - d. Neither includes provision of government services by contract with private firms.

2. Place these stages in the budget cycle in the order in which they normally occur.
 - a. Agency request, executive consideration, legislative consideration, audit, service delivery.
 - b. Executive consideration, agency request, legislative consideration, service delivery, audit.
 - c. Executive consideration, agency request, legislative consideration, audit, service delivery.
 - d. Agency request, executive consideration, legislative consideration, service delivery, audit.

3. Choose the best way to complete the statement: “A budget is...”
 - a. a forecast for spending.
 - b. a plan for how to deal with problems.
 - c. a forecast for revenue collection.
 - d. an excuse for a big legislative party.

4. The purpose of a financial audit includes all of the following EXCEPT:
 - a. Assess legality of transactions
 - b. Evaluate effectiveness of public resource use
 - c. Test internal controls
 - d. Examine completeness of financial records

5. Agency X had an appropriation of \$10 million in 2013 and of \$11.5 million in 2014 (an increase of \$1.5 million or 15%). According to the incrementalist view, what is the 2014 budget base for the agency?
 - a. \$10 million
 - b. \$13 million (\$11.5 million plus \$1.5 million)