

## **Fiscal & Monetary Policy – Small Assessment**

### **Part 1: Multiple Choice (Choose the best answer)**

1. Which of the following is a tool of fiscal policy?
    - a) Interest rates
    - b) Government spending
    - c) Money supply
    - d) Exchange rates
  
  2. If the government increases taxes, what is the most likely effect?
    - a) Increased consumer spending
    - b) Higher inflation
    - c) Decreased disposable income
    - d) More job creation
  
  3. The Bank of Canada influences the economy primarily by:
    - a) Changing income tax rates
    - b) Controlling money supply and interest rates
    - c) Increasing government spending
    - d) Setting minimum wage levels
  
  4. What happens when the central bank lowers interest rates?
    - a) Borrowing becomes more expensive
    - b) Inflation decreases
    - c) Consumers and businesses borrow more
    - d) The value of the currency increases
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### **Part 2: Short Answer**

5. Explain one way in which individuals or groups can influence macroeconomic policies.
6. What is the main difference between fiscal policy and monetary policy?
7. How does a high-interest rate impact the trade balance of a country?
8. Why might a government choose to increase spending during a recession?

## Fiscal & Monetary Policy – Small Assessment Answers

### Part 1: Multiple Choice

- 1. Which of the following is a tool of fiscal policy?**  
**b) Government spending**  
*Fiscal policy involves government spending and taxation to influence the economy.*
  - 2. If the government increases taxes, what is the most likely effect?**  
**c) Decreased disposable income**  
*Higher taxes reduce the amount of money consumers have to spend.*
  - 3. The Bank of Canada influences the economy primarily by:**  
**b) Controlling money supply and interest rates**  
*Monetary policy is controlled by the central bank through interest rates and money supply adjustments.*
  - 4. What happens when the central bank lowers interest rates?**  
**c) Consumers and businesses borrow more**  
*Lower interest rates make borrowing cheaper, encouraging investment and spending.*
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### Part 2: Short Answer

- 5. Explain one way in which individuals or groups can influence macroeconomic policies.**  
*Individuals and groups can influence policies through voting, lobbying, signing petitions, organizing protests, or using social media to raise awareness about economic issues.*
- 6. What is the main difference between fiscal policy and monetary policy?**  
*Fiscal policy is controlled by the government and involves taxation and spending decisions, while monetary policy is managed by the central bank and focuses on money supply and interest rates.*
- 7. How does a high-interest rate impact the trade balance of a country?**  
*High interest rates increase the value of the currency, making exports more expensive and imports cheaper, which can lead to a trade deficit.*
- 8. Why might a government choose to increase spending during a recession?**  
*Increased government spending stimulates economic activity by creating jobs, boosting demand, and encouraging business growth, which helps counteract a recession.*

