

5.4 Government Deficits and the National Debt

Name: _____ Class: _____ Date: _____

Total: 9 marks

Objective

Build the skills to answer exam questions on **government deficits and the national debt**.

You must be able to:

- distinguish a **budget deficit** 预算赤字 (a yearly shortfall) from the **national debt** 国债 (accumulated deficits)
- explain how persistent deficits add to the national debt
- discuss the long-run concerns of a rising debt

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Deficit vs debt

A **budget deficit** is a single year's shortfall (spending > tax revenue). The **national debt** is the total of all past deficits, minus any surpluses.

■ Deficits build the debt

Each year's deficit is **added** to the national debt; running surpluses reduces it.

■ Long-run concerns

Rising debt means higher **interest costs** and a **burden on future taxpayers**, and can push up interest rates.

2 Practice

2.1 State the difference between a budget deficit and the national debt. [2]

2.2 State how persistent deficits affect the national debt. [1]

2.3 State one long-run concern of a large national debt. [1]

3 Exam-style questions

3.1 The national debt is [1]

- A one year's shortfall
 - B the accumulated total of past deficits
 - C a budget surplus
 - D total exports
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3.2 A budget deficit occurs when [1]

- A spending is less than tax revenue
 - B spending is greater than tax revenue
 - C the debt is zero
 - D exports exceed imports
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3.3 A government spends \$500 billion and collects \$420 billion in taxes this year.

(a) Find the budget deficit. [2]

(b) State its effect on the national debt. [1]

4 Go further

- work through the **5.4 Government Deficits and the National Debt** lesson on the **Learn** page;
- read the **Long-Run Consequences of Stabilization Policies** section of the AP Macroeconomics handout on the **Know** page.

Solutions

2.1 a deficit is a single year's shortfall; the national debt is the accumulated total of all past deficits.

2.2 they add to it (increase it).

2.3 higher interest costs, or a burden on future taxpayers (any one).

3.1 B.

3.2 B.

3.3 (a) $500 - 420 = \$80$ billion. (b) it adds \$80 billion to the national debt.