Exercise walk-through

Government Deficits and the National Debt ▪ 5.4

eXercise

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

Method — 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.

Method — Deficits build the debt

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

Method — Long-run concerns

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

Practice 2.1 ▪ 2 marks

State the difference between a budget deficit and the national debt.

Solution 2.1

Method: Deficit vs debt

Worked steps

a deficit is a single year's shortfall; the national debt is the accumulated total of all past deficits **B1** **B1**.

Practice 2.2 ▪ 1 mark

State how persistent deficits affect the national debt.

Solution 2.2

Worked steps

they add to it (increase it) **B1**.

Practice 2.3 ▪ 1 mark

State one long-run concern of a large national debt.

Solution 2.3

Worked steps

higher interest costs, or a burden on future taxpayers (any one) **B1**.

Exam-style 3.1 ▪ 1 mark

The national debt is

A one year’s shortfall

B the accumulated total of past deficits

C a budget surplus

D total exports

Solution 3.1

A one year's shortfall

B the accumulated total of past deficits ✓

C a budget surplus

D total exports

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

A budget deficit occurs when

- **A** spending is less than tax revenue
- **B** spending is greater than tax revenue
- **C** the debt is zero
- **D** exports exceed imports

Solution 3.2

Method: Deficit vs debt

A spending is less than tax revenue

B spending is greater than tax revenue ✓

C the debt is zero

D exports exceed imports

Worked steps

B.

Exam-style 3.3 ▪ 2 marks

A government spends $\$500$ billion and collects $\$420$ billion in taxes this year.

(a) Find the budget deficit.

(b) State its effect on the national debt.

Solution 3.3

Method: Deficit vs debt

Worked steps

(a) $500 - 420 = \$80$ billion **M1** **A1**. (b) it adds $\$80$ billion to the national debt **B1**.