Teacher Answer Key

Case Study

1. Austerity measures (spending cuts, VAT increase) combined with banking, labor, and corporate tax reforms.

2. Structural reforms improved competitiveness and growth potential, boosting revenues.

Multiple Choice

1. B

2. C

3. D

Matching

1-E, 2-C, 3-D, 4-B, 5-A

Fill-in-the-Blank

1) national debt, 2) cyclical, 3) fiscal

Short Answer (Sample Responses)

Q1: High debt servicing costs crowd out other spending and can raise borrowing rates if investors doubt repayment.

Q2: Advantage: quickly reduces deficits; Drawback: can suppress growth and deepen recessions.

Q3: By cutting spending or raising taxes in booms and increasing spending or cutting taxes in busts, governments smooth output fluctuations.