Teacher Answer Key

Case Study

1. By limiting budgetary spending to a fixed percentage, the rule prevents surges in public outlays that could overheat the economy.

2. Global diversification spreads risk across asset classes and regions, reducing dependence on oil price moves.

Multiple Choice

1. D

2. D

3. A

Matching

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

Fill-in-the-Blank

1) 3%, 2) Progressive, 3) labor

Short Answer (Sample Responses)

Q1: Deep recessions may require active stimulus beyond automatic stabilizers to restore demand.

Q2: Maintaining large reserves can be costly and may tie up capital that could be invested elsewhere.

Q3: Reforms enhance the speed and effectiveness of policy by making labor, product, and financial markets more responsive.