EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Economics

Q: Which of the following is MOST LIKELY attributed to poor fiscal policy?

CORRECT ANSWER:

Ⓒ **An excess of government spending.**

Government spending is a tool of fiscal policy. Depending on the phase of the economic cycle, government spending may be excessive, causing negative impacts, rather than its intended expansionary impact.

Choice "a" is incorrect. An overabundance of liquidity can be caused by central banking decisions which allow too much money to be circulating within the economy. Central banking decisions are a part of monetary policy, not fiscal policy.

Choice "b" is incorrect. A sudden decrease in oil supplies (e.g., from political instability) is considered to be an external economic shock, and comes from neither fiscal policy nor monetary policy.

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