10 Trade-offs and policy limits – Part 2 — Answers

Answers

Work through these after trying the questions yourself.

10.6 Gaining on one aim at the cost of another.
10.7 Lower unemployment comes with higher inflation.
10.8 It falls.
10.9 Very high rates discourage work and encourage tax avoidance.
10.10 When heavy government borrowing raises interest rates and reduces private investment.

10.11 The Laffer curve shows that beyond the revenue-maximising rate, raising the tax rate further *lowers* revenue. An 80% top rate strongly discourages high earners from working extra and encourages tax avoidance or moving abroad. This shrinks the taxable income so much that, even at the higher rate, total revenue collected falls.