10 Trade-offs and policy limits – Part 2

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
trade-off	取舍			
Phillips curve	菲利普斯曲线			
Laffer curve	拉弗曲线			
crowding out	挤出效应			

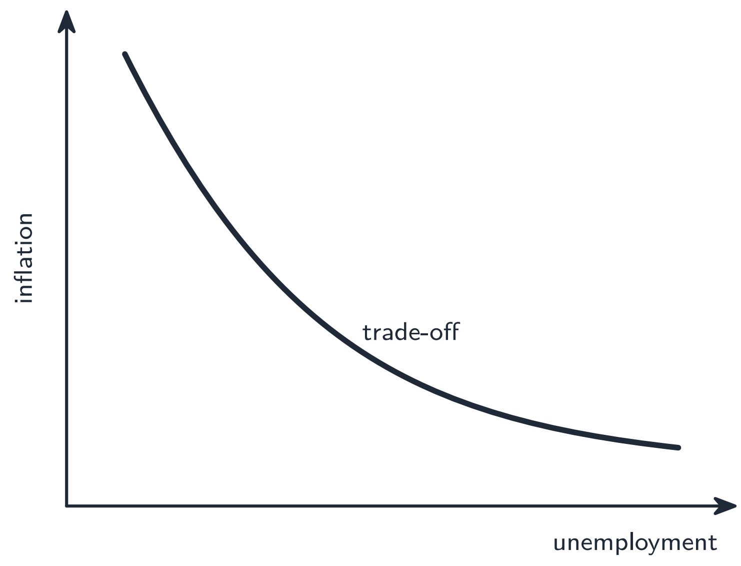
Recall

The government's aims often clash, and its tools have limits. Two famous curves show why.

New ideas

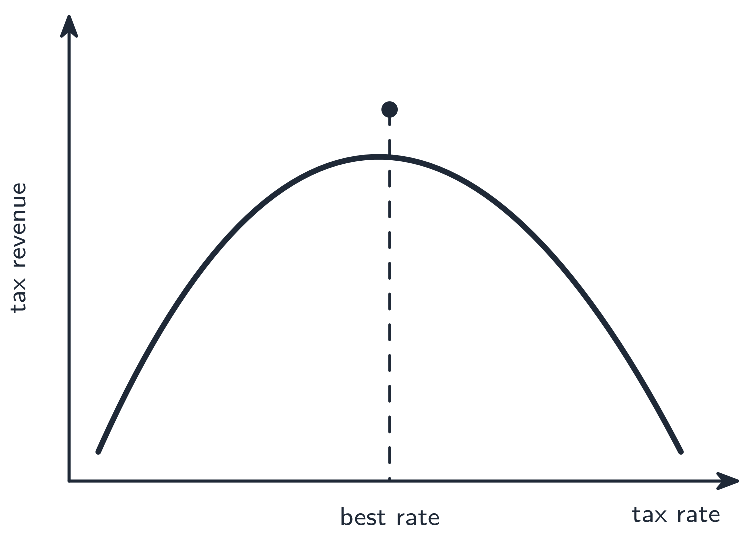
Read these first, then do the Practice.

■ **1 The Phillips curve**



Aims pull against each other, so a government faces a **trade-off 取舍**. The **Phillips curve 菲利普斯曲线** shows one: cutting unemployment tends to push inflation up.

■ 2 The Laffer curve



The **Laffer curve 拉弗曲线** warns that as the tax rate rises, tax revenue first rises but then *falls* — very high rates discourage work. Heavy government borrowing can also cause **crowding out 挤出效应**, raising interest rates and reducing private investment.

Watch out: the Phillips curve shows a *trade-off* — lower unemployment tends to mean higher inflation. The Laffer curve warns that beyond a point a *higher* tax rate gives *lower* revenue. Crowding out: heavy government borrowing raises interest rates,

> cutting private investment.

Practice

Try these in order.

10.6 What is a *trade-off*? [1]

10.7 What trade-off does the *Phillips curve* show? [1]

10.8 According to the *Laffer curve*, what happens to revenue if the tax rate gets very high? [1]

10.9 Why might a very high tax rate lower revenue? [1]

10.10 What is *crowding out*? [1]

10.11 **Challenge.** A government raises the top income-tax rate from 50% to 80%, but tax revenue *falls*. Use the Laffer curve to explain why. [2]