A-LEVEL ECONOMICS • EXERCISE SHEET

10.3 Effectiveness of policy options to meet all macroeconomic objectives

Name: ____________ Class: ________ Date: __________ **Total: 24 marks**

KEY WORDS laffer curve 拉弗曲线 • crowding out 挤出效应 • time lags 时滞 • tax revenue 税收收入 • effectiveness of policy options 政策有效性

Objective

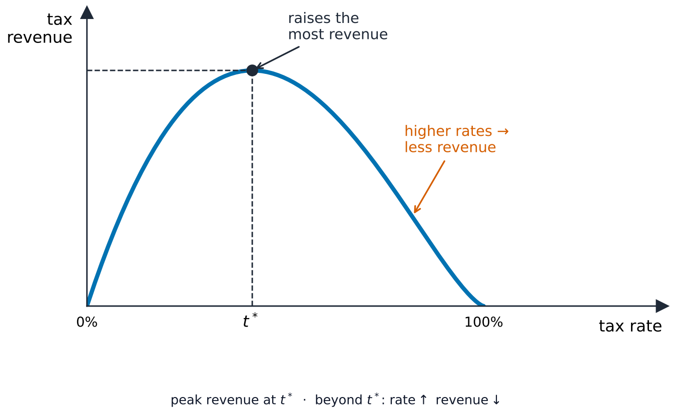
Build the skills to answer exam questions on the **effectiveness of policy options** 政策有效性 — the strengths and weaknesses of **fiscal, monetary and supply-side** policy, including **crowding out** 挤出效应 and the **Laffer curve** 拉弗曲线.

You must be able to:

- explain the strengths and weaknesses of each policy
- explain crowding out and the Laffer curve
- evaluate the best policy mix to meet objectives

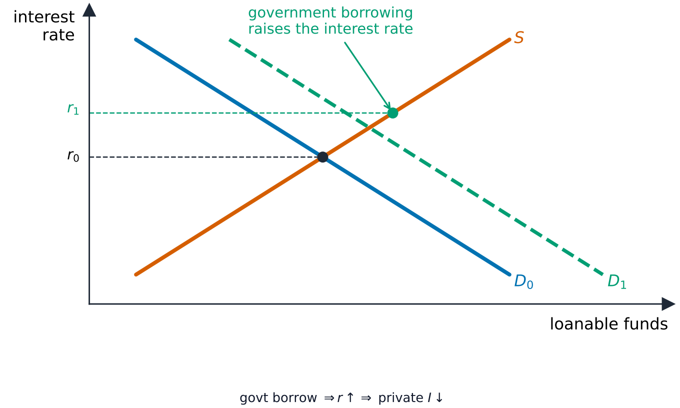
1 Worked examples

■ The Laffer curve



Revenue is zero at 0% and 100%; going above t^* *lowers revenue*

- **Fiscal policy:** powerful and targeted, but has **time lags** 时滞, raises **national debt** 国债, and risks **crowding out** 挤出效应.
- **Monetary policy:** flexible, but works with a lag and is weak in a deep slump.



A key limit on fiscal policy: crowding out private investment

- **Supply-side policy:** raises growth *and* lowers inflation, but is slow and costly.
- **Laffer curve** 拉弗曲线: above the revenue-maximising rate t^*, higher tax rates *cut* revenue.

Answer shapes: an **Explain** [up to 8] answer may use a diagram (AO3); **Discuss** [12] adds a judgement (AO4).

2 Practice

2.1 Define the term *crowding out*. [2]

2.2 State what the **Laffer curve** shows. [2]

2.3 State one weakness of monetary policy. [1]

3 Exam-style questions

3.1 According to the Laffer curve, raising the tax rate **above** the revenue-maximising rate will: [1]

A	B
C	D

A always raise tax revenue
B lower tax revenue
C leave tax revenue unchanged
D raise the money supply

3.2 Explain how heavy government borrowing can crowd out private investment. [6]

3.3 Discuss which policy a government should rely on most to achieve long-term economic growth. [12]