

Name: \_\_\_\_\_ Date: \_\_\_\_\_

## Dissect the Laffer Curve and Multipliers: 10th Grade Fiscal Policy Quiz

Calculate economic impacts and evaluate budgetary trade-offs using real-world scenarios of tax elasticity and the marginal propensity to consume.

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**1. A government decides to increase infrastructure spending by \$500 million. If the Marginal Propensity to Consume (MPC) is 0.8, what is the total theoretical increase in Aggregate Demand based on the spending multiplier effect?**

- A. \$400 million
- B. \$625 million
- C. \$2.5 billion
- D. \$4 billion

**2. According to the concept of 'Crowding Out,' increased government borrowing to fund a deficit can lead to higher interest rates, which reduces private sector investment.**

- A. True
- B. False

**3. When a government implements a \_\_\_\_\_, it collects more in tax revenue than it spends in a single fiscal year, often used to cool an overheating economy.**

- A. Budget Deficit
- B. Budget Surplus
- C. Trade Deficit
- D. Monetary Contraction

**4. Which of the following serves as an 'Automatic Stabilizer' that shifts fiscal policy without requiring new legislation during an economic downturn?**

- A. A corporate bailout package authorized by Congress
- B. The Federal Reserve lowering interest rates
- C. Progressive income tax brackets and unemployment insurance
- D. A flat tax rate applied equally to all citizens

**5. The Laffer Curve suggests that if tax rates are too high, decreasing the tax rate could actually increase the total tax revenue collected by the government.**

- A. True
- B. False

**6. A 'Supply-Side' economist would most likely argue that a reduction in \_\_\_\_\_ is the best way to stimulate long-term economic growth.**

- A. Capital Gains Taxes
- B. Interest Rates

Name: \_\_\_\_\_ Date: \_\_\_\_\_

- C. Public Education Spending
- D. The Money Supply

**7. Which scenario best exemplifies 'Contractionary Fiscal Policy' used to combat demand-pull inflation?**

- A. Subsidizing new technology to lower production costs
- B. Increasing government grants for public housing
- C. Selling government bonds to the public
- D. Cutting government defense spending and raising corporate taxes

**8. Proponents of Keynesian economics believe that because prices and wages are 'sticky' downward, the government must use active fiscal intervention to manage the business cycle.**

- A. True
- B. False

**9. The \_\_\_\_\_ refers to the time it takes for the government to identify an economic problem, debate a response, and pass a law to implement fiscal change.**

- A. Recognition Lag
- B. Data Lag
- C. Administrative Lag
- D. Impact Lag

**10. How does the 'Tax Multiplier' compare to the 'Spending Multiplier' in magnitude, and why?**

- A. It is larger because people feel wealthier with more disposable income.
- B. It is smaller because some of the tax cut is saved rather than spent.
- C. They are exactly equal because the dollar amount is the same.
- D. It is larger because it affects the 'Supply-Side' of the economy.