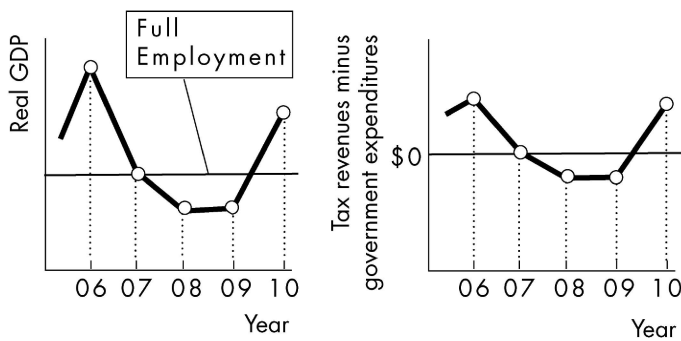


Choose the one alternative that best completes the statement or answers the question.

- 1) The Laffer curve shows that increasing \_\_\_\_\_ increases \_\_\_\_\_ when \_\_\_\_\_ low. 1) \_\_\_\_\_  
 A) tax rates; tax revenue; tax rates are  
 B) potential GDP; tax revenue; tax revenue is  
 C) tax revenue; potential GDP; tax revenue is  
 D) None of the above answers is correct.
  
- 2) A decrease in the income tax rate 2) \_\_\_\_\_  
 A) increases the tax wedge. B) decreases potential GDP.  
 C) increases the supply of labor. D) decreases the demand for labor.
  
- 3) A fall in income that results in a decrease in tax revenues is an example of \_\_\_\_\_. 3) \_\_\_\_\_  
 A) needs-tested tax programs B) automatic fiscal policy  
 C) discretionary fiscal policy D) a recession
  
- 4) When the economy grows, \_\_\_\_\_ increase because real GDP \_\_\_\_\_. 4) \_\_\_\_\_  
 A) structural deficits; decreases B) tax revenues; increases  
 C) tax revenues; decreases D) recognition lags; increases
  
- 5) Which of the following relationships is correct? 5) \_\_\_\_\_  
 A) actual budget deficit = structural deficit + cyclical deficit  
 B) actual budget deficit = structural deficit - cyclical deficit  
 C) cyclical deficit = actual budget deficit + structural deficit  
 D) cyclical surplus = actual budget deficit - cyclical deficit



- 6) Economic data for a mythical economy in the years 2006–2010 are summarized in the figure above. 6) \_\_\_\_\_  
 Assume that the spending formulas and tax schedules are identical for all years. When the economy is at full employment, the government has a  
 A) procyclical policy. B) budget deficit.  
 C) balanced budget. D) budget surplus.
  
- 7) Economic data for a mythical economy in the years 2006–2010 are summarized in the figure above. 7) \_\_\_\_\_  
 Assume that the spending formulas and tax schedules are identical for all years. When the economy is above full employment, the government has a  
 A) procyclical policy. B) budget surplus.  
 C) budget deficit. D) balanced budget.

