

Quiz 5

Name:

1. True or false (4 points):

Government debt is the sum of all the past federal budget deficits (up to the present day).

Your answer:

2. Short Answer (8 points):

- a) Define and draw the Laffer Curve.
- b) Given that a country is on the left side of the maximum point, what happens if its government increases income taxes?
- c) Given that a country is on the right side of the maximum point, what happens if its government increases income taxes?

Your answer:

3. Short Answer (8 points):

Consider the balance sheet items listed in the table below. In the second column, identify whether an item belongs to government receipts (R) or outlays (O).

Your answer:

Balance Sheet Item	R or O?
Welfare transfers	
Social security taxes	
U.S. military expenditure	
Interest payments on U.S. government bonds held by the public	
Interest payments on Canadian government bonds held by the U.S. government	
Taxes on capital gains	