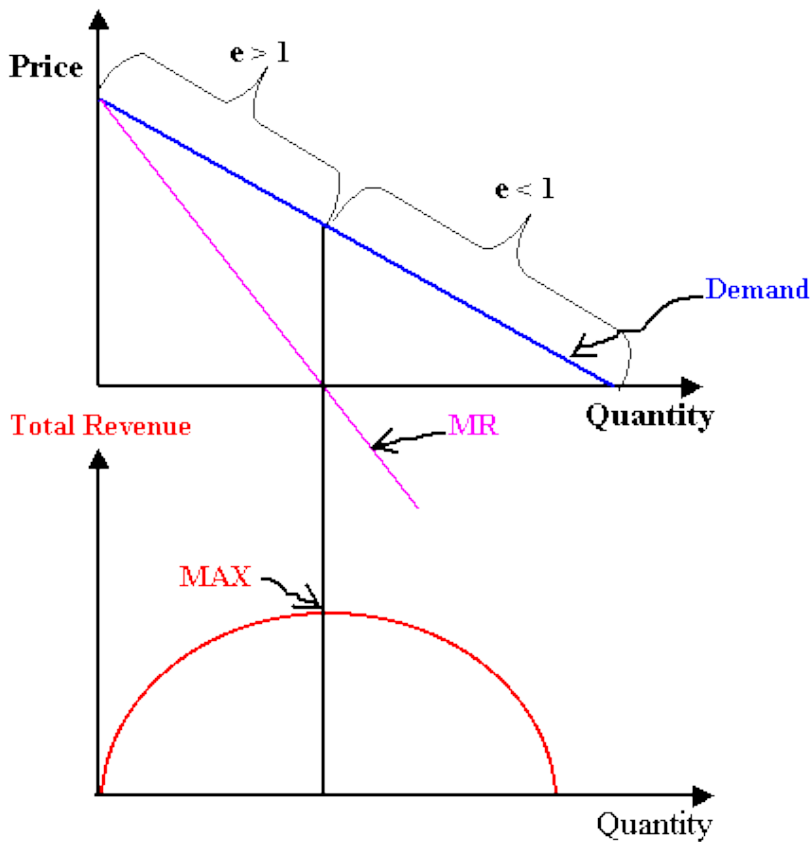We talked about the relationship between these two graphs: Supply & Demand and Total Revenue. Remember, total revenue is maximized at the unit elastic point on the demand curve, and we also learned that total revenue is maximized where marginal revenue equals 0.

If we change the x-axis (see below) on the Total Revenue graph to *tax rate* rather than *quantity*, we get a graph called the Laffer curve. This idea was developed by an economist named Arthur Laffer. He theorized the following: Increasing taxes does increase revenue at first, but eventually if you keep raising the tax rate, people will reduce their work time because the feel too much of their income is going to taxes. Therefore, tax revenue starts to decline. At the extreme when the tax rate is 100%, people stop working altogether because they see that all their income goes to the government. What the magic revenue maximizing tax rate is no one knows for sure.