

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Use the table to the right to determine the marginal tax rate, total taxes paid, and average tax rate for a person who is earning \$50,000. Show all work. If there is no work, then briefly explain how you got your answer.

Bracket	Tax Rate
\$0 - \$30,000	5%
\$30,000 - \$45,000	20%
\$45,000 - \$85,000	25%
> \$85,000	30%

2) (20 points) What is the economic reason that increasing a tax rate could result in less tax revenue? Explain it in a general manner which would apply to all taxes. Give a numerical example using an excise tax which shows what you described. Use it to prove that the higher tax rate yields less revenue.

3) (15 points) I said that I feel that most sales taxes are regressive. Explain my logic.

4) (20 points) Draw the supply and demand for a good with a relatively steep supply curve and a relatively flat demand curve. Draw the effects of a tax on that product. Explain why the curve(s) moved as drawn. In your drawing, who pays most of the tax. Explain how you see that in your graph.

5) (10 points) In Question #4, you determined how much of the tax was paid by the producer. Who is really paying that? In other words, which people are getting less money? Explain your logic.

6) (20 points) Draw the Laffer Curve and explain why it takes its shape.