

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 1 point. 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) Answer each part in separate paragraphs. Assume we are going to save Social Security.
 - A) (5 points) What is the long-term problem facing Social Security? What are the two long-term trends which are causing this problem? State how they cause that problem.
 - B) (20 points) Some people have proposed increasing the Social Security tax. How would that help reduce the problem? Would you do that as part of a plan to save Social Security? Explain your logic as to why you would or would not do that.
 - C) (20 points) Some people have proposed we means test the Social Security benefits. How would that help reduce the problem? Would you do that as part of a plan to save Social Security? Explain your logic as to why you would or would not do that.

- 2) (10 points) Explain the general principle of how raising a tax can result in less tax revenue from it. Give a numerical example of a specific tax which proves your point. Explain how your example proves your point.

- 3) (15 points each) Answer each question in a separate paragraph. For each event, determine what happens to the unemployment rate and the labor force participation rate. Explain your logic stating which type of unemployment was affected and why you chose that.
 - A) A coal worker in this area gets laid off.
 - B) John quits his job because he dislikes his boss.
 - C) A ski instructor gets laid off in April.