

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) (25 points) Draw the supply/demand diagram for a good with a price ceiling. Explain why the graph looks as drawn. Find the consumer surplus, producer surplus, dead weight loss, and black marketeer profits. Find those areas for both free market and the price ceiling. Briefly explain how you found each area.

2) (15 points) Explain the general reason why increasing any tax could result in less tax revenue. Give a numerical example of an excise tax which illustrates your principle.

3) (15 points) Draw the Laffer Curve with tax rate on the horizontal axis. (That is the more common way to draw it and has the independent variable on the horizontal axis.) Explain why it takes that shape.

4) (20 points) Use the table to the right to determine the marginal tax rate, total taxes paid, and average tax rate for a person earning \$50,000. Show all work. If there is no work then state what you did.

| Tax Bracket | Tax Rate |
|--------------------|----------|
| \$0-10,000 | 10% |
| \$10,000-\$30,000 | 20% |
| \$30,000-\$70,000 | 30% |
| \$70,000-\$100,000 | 40% |
| >\$100,000 | 50% |

5) (25 points) Draw the supply and demand for corn. Suppose the government gives a subsidy to corn farmers. (Note that the book has the subsidy given to the consumer, not the producer.) Illustrate the effects of that subsidy. Explain why the curve(s) moved as drawn. Find the consumer surplus, producer surplus, dead weight loss, and government subsidy paid. Find those areas for both free market and the subsidy. Briefly explain how you found each area.