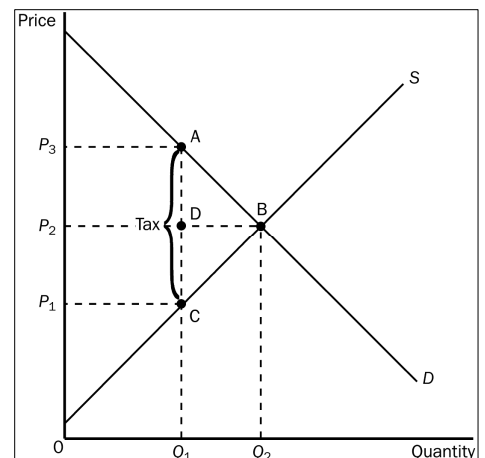


**ARE 201 Spring 2009 HW #6**

**Due Date: Tuesday March 31st, 2009 before class**

**MULTIPLE CHOICE**

1. When Ronald Reagan ran for the office of President of the United States, he promised that, if elected, he would work for
  - a. increased taxes on gasoline.
  - b. reduced state sales tax rates.
  - c. reduced Federal sales tax rates.
  - d. reduced Federal income tax rates.
2. When a good is taxed
  - a. both buyers and sellers are worse off.
  - b. only buyers are worse off because they ultimately pay the majority of the tax.
  - c. only sellers are worse off because the government holds them responsible for collecting the tax.
  - d. neither buyers nor sellers are worse off since tax revenue is used to provide goods and services that would otherwise not be provided by the market.
3. The benefit received by buyers in the market is measured by
  - a. the demand curve.
  - b. consumer surplus.
  - c. the amount buyers are willing to pay for the good.
  - d. the equilibrium price.
4. When the government places a tax on a product
  - a. the cost of the tax to buyers and sellers will be less than the revenue raised from the tax by the government.
  - b. the cost of the tax to buyers and sellers will equal the revenue raised from the tax by the government.
  - c. the cost of the tax to buyers and sellers exceeds the revenue raised from the tax by the government.
  - d. without additional information, such as the elasticity of demand for this product, it is impossible to compare tax cost with tax revenue.
5. The amount of deadweight loss that will result from a tax is determined by the
  - a. price elasticity of demand and supply.
  - b. number of buyers of the product in the market.
  - c. number of suppliers of the product in the market.
  - d. percentage of the purchase price the tax amounts to.
6. The amount of tax revenue received by the government is equal to the area
  - a. P3 A C P1.
  - b. A B C.
  - c. P2 D A P3.
  - d. P1 C D P2.



7. The amount of deadweight loss associated with the tax is equal to
  - a. P3 A C P1.
  - b. A B C.
  - c. P2 A D P3.
  - d. P1 D C P2.
8. Ronald Reagan believed that reducing income tax rates would
  - a. cause government tax collections to decline.
  - b. cause government tax collections to rise.
  - c. cause the Federal deficit (and the national debt) to increase.
  - d. have no effect on the amount of government tax collections.
9. The Laffer curve indicates each of the following EXCEPT income tax collections will be
  - a. very low if income tax rates are very low.
  - b. very low if income tax rates are very high.
  - c. at a maximum if income tax rates are at some intermediate level between very low and very high.
  - d. very high if income tax rates are very high.
10. The higher a country's tax rates the more likely that country will be
  - a. on the top of the Laffer curve.
  - b. on the positively sloped part of the Laffer curve.
  - c. above the Laffer curve.
  - d. on the negatively sloped part of the Laffer curve.

### **TRUE/FALSE**

1. Often, the tax revenue collected by the government equals the reduced welfare of buyers and sellers caused by the tax.
2. The Social Security tax, and to a large extent, the federal income tax, are labor taxes.
3. Because the supply of land is perfectly elastic, the deadweight loss of a tax on land is enormous.
4. The deadweight loss of a tax rises even more rapidly than the size of the tax.
5. When the government imposes taxes on buyers and sellers of a good, society loses some of the benefits of market efficiency.

### **SHORT ANSWER**

#### **APPLICATION/SCENARIO**

Using the graph shown, determine each of the following:

- a. equilibrium price before the tax
- b. consumer surplus before the tax
- c. producer surplus before the tax
- d. total surplus before the tax
- e. consumer surplus after the tax
- f. producer surplus after the tax
- g. total tax revenue to the government

- h. total surplus (consumer surplus + producer surplus + tax revenue) after the tax
- i. deadweight loss

