

Chapter 16

- 1 . Suppose that 25% of income must be paid in taxes, then 25% of income constitutes:
 - a. The tax base.
 - b. The tax rate structure.
 - c. The personal exemption.
 - d. The standard deduction.

- 2 . A tax whose burden, expressed as a percentage of income, increases as income increases is called:
 - a. A proportional income tax.
 - b. A progressive tax.
 - c. An excise tax.
 - d. A regressive tax.

- 3 . The tax rate you pay on any additional income you earn is called:
 - a. The average tax rate.
 - b. The marginal tax rate.
 - c. The total tax rate.
 - d. The tax base.

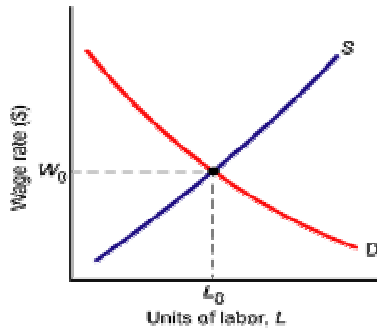
4. The retail sales tax is considered:
 - a. A progressive tax.
 - b. A proportional tax.
 - c. A regressive tax.
 - d. An excise tax.

5. Which of the following was \$4,750 in 2003?
 - a. Both the personal exemption and the standard deduction.
 - b. The average income tax rate.
 - c. The standard deduction.
 - d. The personal exemption.

6. Which theory of fairness holds that taxpayers should contribute to government (in the form of taxes) in proportion to the benefits that they receive from government expenditures?
 - a. Horizontal equity.
 - b. Vertical equity.
 - c. The ability-to-pay principle.
 - d. The benefits-received principle.

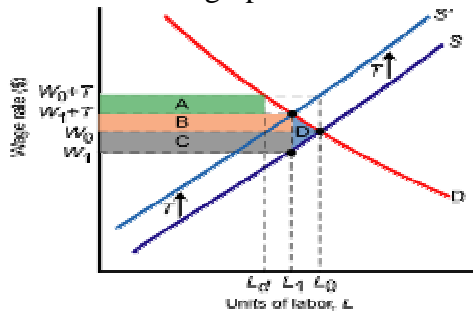
7. Which of the following concepts refers specifically to the idea that those with equal ability to pay should bear equal tax burdens?
- Vertical equity.
 - The benefits-received principle.
 - Horizontal equity.
 - The ability-to-pay principle.
8. Anything that enhances your ability to command resources is called:
- Taxation.
 - Wealth.
 - Income.
 - Consumption.
9. If the purpose of taxation is to redistribute well being, which of the following would be the best tax base?
- Wealth.
 - Consumption.
 - Income.
 - Any of the above.
10. Which of the following terms is a synonym for the ultimate distribution of a tax's burden?
- Tax incidence.
 - Tax base.
 - Tax rate structure.
 - Tax shifting.
11. Which types of taxes are more likely to be shifted?
- The retail sales tax.
 - Partial taxes.
 - Broad-based taxes.
 - All of the above. All taxes are equally likely to be shifted.
12. All else the same, a payroll tax will result in:
- lower demand for labor and higher wages.
 - higher demand for labor and higher wages.
 - lower demand for labor and lower wages.
 - higher demand for labor and lower wages.

13. Refer to the graph below. The shape of this curve depends on how responsive firms are to wage changes. Which curve is it?



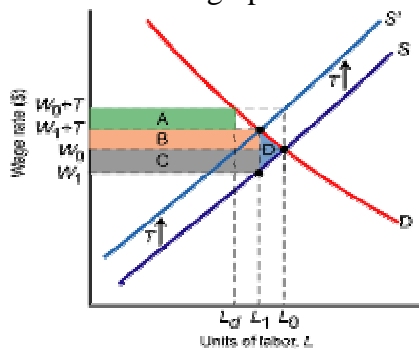
- The labor demand curve.
- The labor supply curve.
- The shape of both curves depends on that.
- Neither curve.

14. Refer to the graph below. Which area corresponds to total tax collections?



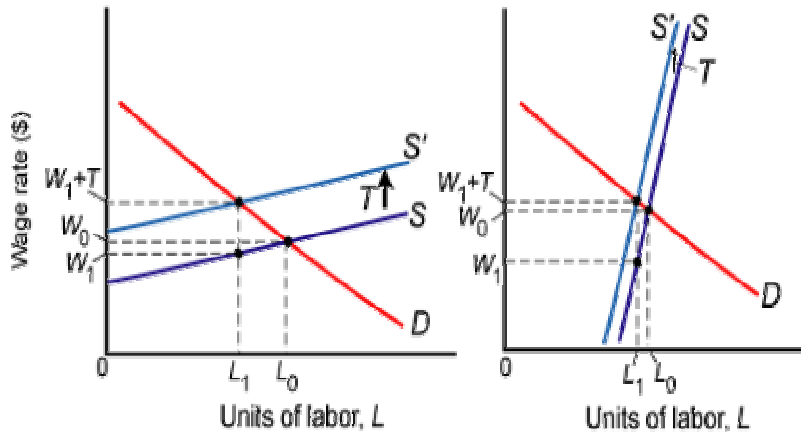
- D
- A + B + C
- A + B
- B + C

15. Refer to the graph below. Which area corresponds to the firm's share of the payroll tax?



- B
- A
- C
- None of the above. The tax is imposed on workers, not firms.

16. Refer to the graph below. In which of the graphs does the burden of the payroll tax fall largely on workers?



- In the graph on the left.
- In the graph on the right.
- In both graphs.
- In neither graph.

17. Which of the following is likely to occur after a corporate tax (or a tax on capital income) is imposed?

- Some of the tax shifts to the noncorporate sector.
- Capital investment begins to favor the nontaxed sector.
- Taxed firms will have an incentive to substitute labor for capital.
- All of the above.

18. Which of the following is true about the empirical evidence of the overall tax system in the United States?

- The overall system is mildly progressive.
- Federal taxes are mildly regressive.
- Sales taxes and payroll taxes are strongly progressive.
- State and local taxes are strongly progressive.

19. A distorting tax is sometimes desirable when other distortions already exist in the economy. This is called the:

- Degree of distortion.
- Excess burden.
- Principle of second best.
- Principle of neutrality.

20. Refer to the graph below. The size of the excess burden from a distorting tax:



- is larger along D_1 .
- is larger along D_2 .
- is the same along both demand curves.
- cannot be measured.

True False Questions

1 . A tax whose burden is the same proportion of income for all households is called a progressive tax.

True

False

2 . Excise taxes are regressive.

True

False

3 . The retail sales tax is progressive.

True

False

4 . The marginal tax rate is computed by taking the total amount of tax paid and dividing it by your total income.

True

False

5 . Two theories of fairness in taxation are the benefits-received principle and the ability-to-pay principle.

True
False

6 . Among the leading candidates for the "best" tax base, wealth (or net worth) is the winner.

True
False

7 . The value added tax (or VAT) is essentially a national sales tax adopted by most European countries.

True
False

8 . The amount of income from all sources must be exactly equal to the amount of income allocated to all uses.

True
False

9 . Tax shifting takes place when households alter their behavior and do something to avoid paying a tax.

True
False

10 . Broad-based taxes are more likely to be shifted than "partial taxes."

True
False

11 . If labor supply is relatively elastic, the burden of a payroll tax falls largely on employers.

True
False

12 . Most of the payroll tax in the United States is probably borne by employers.

True
False

13 . A corporate tax is a good idea because it prevents proprietorships and partnerships from bearing the burden of taxes that only large corporations can bear.

True
False

14 . Empirical evidence shows that state and local taxes are mildly regressive, but federal taxes are mildly progressive.

True
False

15 . Taxes that are neutral with respect to economic decisions are generally preferable to taxes that distort economic decisions.

True
False

Essay Type Questions

1. Describe the arguments in support of each of the leading candidates for "best" tax base.

2. Define tax shifting and explain which taxes are more likely to be shifted.

3. Describe the impact of a corporate tax, or a tax on capital income, on the economy.