

Chapter 6

Funding the Public Sector

6.1 Paying for the Public Sector

- 1) The fact that every dollar that the government spends or transfers must ultimately be provided by the taxes and user charges it collects plus government borrowing is known as the
- A) government balance sheet constraint.
 - B) government budget constraint.
 - C) tax collection constraint
 - D) user charge constraint.

Answer: B

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

- 2) The government budget constraint implies that
- A) $\text{government borrowings} = \text{government spending} + \text{transfers} - \text{taxes and user charges}.$
 - B) $\text{government borrowings} = \text{taxes and user charges} + \text{government spending} - \text{transfers}$
 - C) $\text{government spending} = \text{transfers} - \text{taxes and user charges} - \text{government borrowing}.$
 - D) $\text{government spending} = \text{government borrowing} - \text{transfers} - \text{taxes and user charges}$

Answer: A

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

- 3) How do taxation and user charges compare as government revenue sources?
- A) Each generates about the same amount of government revenue.
 - B) Revenues from taxation are much greater than revenues from user charges.
 - C) User charges generate much more revenue than do taxes.
 - D) We don't know because the government does not publish revenue figures broken down.

Answer: B

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Over the long run, a government's fundamental source of revenues is
- A) printing money.
 - B) user fees and taxes.
 - C) exports.
 - D) gold sales.

Answer: B

Diff: 2

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

5) The main source of government funding is

- A) user fees.
- B) taxes.
- C) borrowing.
- D) transfer payments.

Answer: B

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB:

Question Status: Previous Edition

6) The sum of public spending on goods and services and transfer payments during a given period cannot exceed tax revenues plus borrowed funds. This is the statement for

- A) ad valorem taxation.
- B) an excise tax.
- C) a sales tax.
- D) the government budget constraint.

Answer: D

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

7) All of the following are possible funding sources for the government EXCEPT

- A) user charges.
- B) taxes.
- C) interest income collected from government bonds.
- D) borrowing.

Answer: C

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

8) Over the long run, the fundamental funding sources for the government are

- A) user charges, taxes, and borrowing.
- B) taxes, transfer payments, and borrowing.
- C) user charges and taxes.
- D) taxes and borrowing.

Answer: C

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

9) According to the government budget constraint, any excess of public expenditures and transfers over taxes and user fees must be funded by

- A) private borrowing.
- B) government borrowing.
- C) U.S. Treasury money creation.
- D) Federal Reserve money creation.

Answer: B

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

10) Of the following, which is the largest source of government funds?

- A) government borrowing
- B) government transfers
- C) user fees
- D) taxation

Answer: D

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

11) What are the three sources of funding for the public sector? Can the government rely on all of these sources in the long run? Explain.

Answer: The three sources are (1) explicit user fees for government goods and services, (2) taxes, and (3) borrowing. Because the government cannot borrow forever so that, in the long run, its major sources of revenue are only user fees and taxes.

Diff: 2

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

12) What is a government's budget constraint in the long run as opposed to a given time period?

Answer: In a given time period, the government budget constraint is the limitation on public expenditures, which is the total amount of tax revenues plus borrowed funds. However, a government cannot borrow forever, so that its constraint in the long run is simply tax revenues.

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

13) Why is the government budget constraint different between the short run and the long run?

Answer: In the short run, the government budget constraint consists of tax revenues and borrowing. However, a government cannot borrow indefinitely so that, in the long run, its budget constant consists of only tax revenues.

Diff: 1

Topic: 6.1 Paying for the Public Sector

AACSB: Analytic skills

Question Status: Previous Edition

6.2 Systems of Taxation

1) The marginal tax rate shows

- A) the percentage of income which a typical family pays in tax.
- B) the average rate of taxation in the economy.
- C) the deductions which are permitted for child care and medical expenses.
- D) the extra tax due on an extra dollar of income.

Answer: D

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 2) The marginal income tax rate is equal to
- A) the total tax payment divided by total income.
 - B) the change in the tax payment divided by the change in income.
 - C) the average tax payment divided by the total tax payment.
 - D) the percent of total income that goes to taxes.

Answer: B

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 3) The marginal income tax rate applies to
- A) all income earned by a family.
 - B) the income in the highest tax bracket reached.
 - C) the income of the highest income U.S. taxpayers.
 - D) the income received by people above the national average.

Answer: B

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Suppose the income tax rate is 0 percent on the first \$10,000; 10 percent on the next \$20,000; 20 percent on the next \$20,000; 30 percent on the next \$20,000; and 40 percent on all income above \$70,000. Family A has income of \$100,000 while Family B has income of \$40,000. The marginal tax rates faced by the two families are
- A) 40 percent on A and 10 percent on B.
 - B) 40 percent on A and 20 percent on B.
 - C) 30 percent on A and 20 percent on B.
 - D) 30 percent on A and 30 percent on B.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Suppose the tax rate on the first \$10,000 of income is 0 percent; 10 percent on the next \$20,000; 20 percent on the next \$20,000; 30 percent on the next \$20,000; and 40 percent on income over \$70,000. Family A has an income of \$120,000 and Family B an income of \$55,000. What is the tax bill of each?
- A) \$48,000 for A and \$16,500 for B
 - B) \$32,000 for A and \$6600 for B
 - C) \$32,000 for A and \$7500 for B
 - D) \$34,000 for A and \$7500 for B

Answer: C

Diff: 3

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose the income tax rate schedule is 0 percent on the first \$10,000; 10 percent on the next \$20,000; 20 percent on the next \$20,000; 30 percent on the next \$20,000; and 40 percent on any income over \$70,000. Family A earns \$28,000 a year and Family B earns \$65,000 a year. Both receive a ten percent raise. What is the marginal tax rate of each and what is the extra tax paid by each after the raise?
- A) Family A: 10 percent marginal tax rate and \$280 in extra taxes; Family B—30 percent marginal tax rate and \$1950 in extra taxes.
 - B) Family A: 10 percent marginal tax rate and \$420 in extra taxes; Family B—30 percent marginal tax rate and \$2275 in extra taxes.
 - C) Family A: 20 percent marginal tax rate and \$360 in extra taxes; Family B—40 percent marginal tax rate and \$2100 in extra taxes.
 - D) Family A: 20 percent marginal tax rate and \$560 in extra taxes. Family B—40 percent marginal tax rate and \$2600 in extra taxes.

Answer: C

Diff: 3

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Suppose the tax rate on the first \$10,000 income is 0 percent; 10 percent on the next \$20,000; 20 percent on the next \$20,000; 30 percent on the next \$30,000; and 40 percent on any income over \$80,000. Family A has income of \$40,000 and Family B has income of \$100,000. What is the marginal and average tax rate for each family?
- A) Family A: marginal—10 percent; average—10 percent; Family B: marginal—30 percent; average—30 percent.
 - B) Family A: marginal—20 percent; average—10 percent; Family B: marginal—40 percent; average—23 percent.
 - C) Family A: marginal—20 percent; average—20 percent; Family B: marginal—40 percent; average—40 percent.
 - D) Family A: marginal—20 percent; average—15 percent; Family B: marginal—40 percent; average—20 percent.

Answer: B

Diff: 3

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Suppose the tax amount on the first \$10,000 income is \$0; \$2000 on the next \$20,000; \$4000 on the next \$20,000; \$6000 on the next \$30,000; and 40 percent on any income over \$80,000. Family A has income of \$30,000 and Family B has income of \$80,000. What is the marginal and average tax rate for each family?

- A) Family A: marginal—10 percent; average—6.7 percent; Family B: marginal—30 percent; average—15 percent.
- B) Family A: marginal—10 percent; average—20 percent; Family B: marginal—30 percent; average—23 percent.
- C) Family A: marginal—10 percent; average—10 percent; Family B: marginal—40 percent; average—40 percent.
- D) Family A: marginal—10 percent; average—15 percent; Family B: marginal—40 percent; average—20 percent.

Answer: A

Diff: 3

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: New

- 9) The marginal tax rate and the average tax rate are the same under a
- A) progressive income tax system.
 - B) regressive income tax system.
 - C) proportional income tax system.
 - D) none of the above.

Answer: C

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 10) A tax rate system characterized by higher marginal tax rates as income increases is known as
- A) a progressive tax system.
 - B) a regressive tax system.
 - C) a proportional tax system.
 - D) a flat-rate tax system.

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 11) Assume a family that earns \$20,000 pays \$1500 in income taxes, while a family that earns \$40,000 pays \$3500 in income taxes. In this situation, the income tax system is
- A) progressive.
 - B) regressive.
 - C) proportional.
 - D) one of the above but we cannot tell which one without more information.

Answer: A

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Assume a family that earns \$30,000 pays \$3500 in income taxes, while a family that earns \$40,000 pays \$3200 in income taxes. In this situation, the income tax system is
- A) progressive.
 - B) regressive.
 - C) proportional.
 - D) one of the above but we cannot tell which one without more information.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: New

- 13) An example of a regressive tax is the
- A) corporate income tax.
 - B) personal income tax.
 - C) Social Security tax.
 - D) state inheritance tax.

Answer: C

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 14) If the marginal tax rate is less than the average tax rate, the tax system is
- A) progressive.
 - B) proportional.
 - C) regressive.
 - D) liberal.

Answer: C

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 15) In a proportional income tax system,
- A) marginal tax rates are the same regardless of the level of taxable income.
 - B) marginal tax rates increase as the level of taxable income increases.
 - C) marginal tax rates decline as the level of taxable income declines.
 - D) everyone pays the same dollar amount in taxes.

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 16) A tax system that applies a lower marginal tax rate at higher levels of income is
- A) progressive.
 - B) regressive.
 - C) proportional.
 - D) backward.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 17) A "flat tax" on personal income, in which the same tax rate is applied to every dollar of income earned by each taxpayer, is an example of
- A) a regressive tax.
 - B) a proportional tax.
 - C) a progressive tax.
 - D) a value-added tax.

Answer: B

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 18) The *average tax rate* can be calculated by which of the following formulas?
- A) The change in taxes due divided by the change in taxable income
 - B) The change in taxable income divided by the change in taxes due
 - C) Total taxes due divided by total taxable income
 - D) Total taxable income divided by total taxes due

Answer: C

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 19) The *marginal tax rate* can be calculated by which of the following formulas?
- A) the change in taxes due divided by the change in taxable income
 - B) the change in taxable income divided by the change in taxes due
 - C) total taxes due divided by total taxable income
 - D) total taxable income divided by total taxes due

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 20) Suppose that in the economy of Springfield, USA, Homer, who has an income of \$50,000, pays \$10,000 in taxes. Edna, who has an income of \$35,000, pays \$9,000 in taxes. Based on this information, we could say that Springfield's tax system is
- A) proportional.
 - B) progressive.
 - C) regressive.
 - D) flat.

Answer: C

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 21) The federal income tax code of the United States is
- A) progressive.
 - B) proportional.
 - C) regressive.
 - D) progressive for individuals but proportional for married couples.

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 22) Advocates of a progressive income tax use arguments EXCEPT for which of the following?
- A) A progressive tax system taxes according to ability to pay.
 - B) A progressive tax system taxes according to benefits received.
 - C) A progressive tax system helps redistribute income away from the rich and towards the poor.
 - D) A progressive tax system maximizes government revenues.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Under a progressive income tax system, the marginal income tax rate paid by taxpayers
- A) declines as their incomes increase.
 - B) rises as their incomes increase.
 - C) is unchanged as their incomes increase.
 - D) is unrelated to their incomes.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 24) The average tax rate is defined as
- A) total tax due/change in taxable income.
 - B) total tax due/total taxable income.
 - C) change in taxes due/change in taxable income.
 - D) change in taxes due/total taxable income.

Answer: B

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 25) The marginal tax rate is
- A) total tax due/change in taxable income.
 - B) total tax due/total taxable income.
 - C) change in taxes due/change in taxable income.
 - D) change in taxes due/total taxable income.

Answer: C

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 26) A tax system in which the average and marginal tax rates are the same for every level of taxable income and every change in income is an example of
- A) regressive taxation.
 - B) proportional taxation.
 - C) progressive taxation.
 - D) premium taxation.

Answer: B

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 27) In a progressive tax system,
- A) the marginal tax rate and the average tax rate are the same for every income level and the same as income increases.
 - B) the marginal tax rate increase as income increases but the average tax rate does not change as income increases.
 - C) the marginal tax rate and the average tax rate increase as income levels increase and the marginal tax rate exceeds the average tax rate.
 - D) the marginal tax rate and the average tax rate decrease as income levels increase and the marginal tax rate is less than the average tax rate.

Answer: C

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 28) The tax base is
- A) the minimum amount of tax revenue that government must collect each year.
 - B) the maximum amount of tax revenue that government must collect each year.
 - C) the sum of all incomes earned in the United States.
 - D) the value of all goods, services, incomes, or wealth subject to taxation.

Answer: D

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

29) The U.S. Social Security tax is an example of a

- A) progressive tax.
- B) proportional tax.
- C) premium tax.
- D) regressive tax.

Answer: D

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Reflective thinking skills

Question Status: Previous Edition

30) Mr. Johnson earns \$100,000 per year. Each year he spends \$70,000 and saves \$30,000. He pays a 5 percent sales tax on all of his spending. Assuming this is the only tax he pays, his average tax rate out of his income is

- A) 1.5 percent.
- B) 2.5 percent.
- C) 3.5 percent.
- D) 5.0 percent.

Answer: C

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

31) In a progressive income tax system,

- A) the marginal tax rate exceeds the average tax rate.
- B) the average tax rate exceeds the marginal tax rate.
- C) high income earners pay a lower percentage of their income in taxes than do low income earners.
- D) the tax rate depends solely on how long an individual has been in the labor force.

Answer: A

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

32) Jamal earns \$160,000 per year and Josephina earns \$80,000 per year. They both pay the same price to buy the identical automobile and each pays \$1,600 in sales tax. In relation to their relative incomes, this is an example of a

- A) regressive tax.
- B) progressive tax.
- C) proportional tax.
- D) marginal tax.

Answer: A

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

33) Jamal earns \$160,000 per year and Josephina earns \$80,000 per year. If Jamal pays \$16,000 in income taxes and Josephina pays \$8,000 in income taxes, the income tax system would be

- A) regressive.
- B) progressive.
- C) proportional.
- D) marginal.

Answer: C

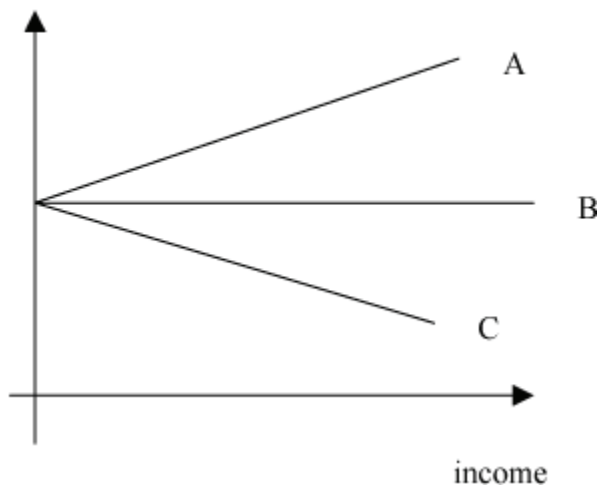
Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

Average tax rate



- 34) Using the above figure, which of the lines in the above diagram represents a proportional tax?
 A) A B) B C) C D) none of them

Answer: B

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Using the above figure, which of the lines in the above diagram represents a progressive tax?
 A) A B) B C) C D) none of them

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Using the above figure, which of the lines in the above diagram represents a regressive tax?
 A) A B) B C) C D) none of them

Answer: C

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Jamal earns \$160,000 per year and Josephina earns \$80,000 per year. If Jamal pays \$16,000 in income taxes and Josephina pays \$5,000 in income taxes, the income tax system would be
 A) regressive. B) progressive. C) proportional. D) marginal.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

38) The Social Security tax is considered to be a

- A) regressive tax.
- B) progressive tax.
- C) proportional tax.
- D) marginal tax.

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Reflective thinking skills

Question Status: Previous Edition

39) Another name for a "flat-rate tax" in which the same tax rate applies to all income earners is a

- A) proportional tax.
- B) progressive tax.
- C) regressive tax.
- D) passive tax.

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

40) Assume that Mr. Smith's income increased from \$40,000 last year to \$45,000 this year and that he paid an additional \$2,000 in taxes. This would indicate that his marginal tax rate is

- A) 10 percent.
- B) 25 percent.
- C) 30 percent.
- D) 40 percent.

Answer: D

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

41) If a tax system is progressive, then

- A) the average and the marginal tax rates are equal.
- B) the marginal tax rate is greater than the average tax rate as income rises.
- C) the marginal tax rate is lower than the average tax rate as income rises.
- D) the average tax rate is constant, but the dollar amount paid in taxes increases as income increases.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

42) The marginal tax rate is

- A) the sum of all individual tax rates.
- B) the total taxes paid as a percentage of total income.
- C) the average tax rate paid by both individuals and corporations.
- D) the increase in taxes as a percentage of the increase in income.

Answer: D

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB:

Question Status: Previous Edition

- 43) When income is \$15,000, the amount of income taxes owed is \$2,000; when income increases to \$20,000, the amount owed increases to \$3,000. The average income tax rate when a person earns \$15,000 is

A) 75 percent. B) 15 percent. C) 13.3 percent. D) 20 percent.

Answer: C

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 44) When income is \$15,000, the amount of income taxes owed is \$2,000; when income increases to \$20,000, the amount owed increases to \$3,000. The marginal tax rate in this case is

A) 20 percent. B) 13.3 percent. C) 15 percent. D) 25 percent.

Answer: A

Diff: 1

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 45) If you were to face a marginal tax rate of 15 percent, how much would your income have increased if your tax bill increased by \$300?

A) \$300 B) \$4,500 C) \$45 D) \$2,000

Answer: D

Diff: 3

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Suppose you are making \$50,000 per year and paying \$5,000 per year in income taxes. You get a \$10,000 per year raise and your income taxes are now \$6,500 per year. Based on this information, the income tax system is

A) proportional. B) progressive. C) regressive. D) bracketed.

Answer: B

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Suppose you are making \$50,000 per year and paying \$5,000 per year in income taxes. You get a \$10,000 per year raise and your income taxes are now \$6,000 per year. Based on this information, the income tax system is

A) proportional. B) progressive. C) regressive. D) bracketed.

Answer: A

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 48) Suppose the income tax rate is 0 percent on the first \$10,000; 10 percent on the next \$20,000; 20 percent on the next \$20,000; 30 percent on the next \$20,000; and 40 percent on all income above \$70,000. Family A has income of \$82,000 while Family B has income of \$37,000. What are the marginal tax rates faced by the two families?

Answer: Since Family A's income (\$82,000) is in the last bracket, their marginal tax rate is 40 percent. Since Family B's income (\$37,000) is in the third bracket, their marginal tax rate is 20 percent.

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: New

- 49) Suppose the income tax rate schedule is 0 percent on the first \$10,000; 10 percent on the next \$20,000; 20 percent on the next \$20,000; 30 percent on the next \$20,000; and 40 percent on any income over \$70,000. Family A earns \$32,000 a year and Family B earns \$70,000 a year. Both families each receive a ten percent raise. What is the marginal tax rate of each and what is the extra tax paid by each after the raise?

Answer: Family A's new income is \$35,200 which falls into the third tax bracket. Thus, their new marginal rate is 20 percent rate and so they will pay \$640 in extra taxes ($\3200×0.20); Family B's new income is \$77,000 which falls into the last tax bracket. Thus, their new marginal tax rate is 40 percent and so they will pay \$2800 in extra taxes ($\7000×0.40).

Diff: 3

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: New

- 50) Briefly compare the three tax systems based on the relationship between the marginal tax rate and the average tax rate as income rises.

Answer: The three tax systems are proportional, progressive, and regressive taxes. A proportional tax system is one in which the amount of taxes is proportional to income so that the marginal tax rate equals the average tax rate at all income levels. A progressive tax system is one in which a higher percentage of income is paid as taxes when income rises, so that the marginal tax rate is higher than the average tax rate when income rises. A regressive tax system is one in which a lower percentage of income is paid as taxes when income rises, so that the marginal tax rate is lower than the average tax rate when income rises.

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 51) "Only in a progressive tax system does the amount of taxes increase as income increases." Do you agree or disagree? Explain.

Answer: Disagree. In all of the three tax systems (progressive, regressive and proportional), the amount of taxes can increase as income increases. In a progressive system, however, not only the amount of taxes increases but also the percentage income paid in taxes increases as income increases.

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

- 52) Suppose Jill has earned more income this year as compared to what she did last year. Her income tax has also increased. Does it necessarily mean that the income tax system is progressive? Explain.

Answer: No, the amount of income tax can increase as income increases in any of the three tax systems (regressive, progressive, and proportional). However, in a progressive tax system, the tax rate (not the tax amount) increases as income increases.

Diff: 2

Topic: 6.2 Systems of Taxation

AACSB: Analytic skills

Question Status: Previous Edition

6.3 The Most Important Federal Taxes

- 1) A typical capital gain is experienced by
- A) selling stock or a mutual fund.
 - B) only rich people.
 - C) only investment bankers.
 - D) all shareholders in the United States.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 2) A capital gain results when
- A) an asset is sold for more than it was purchased.
 - B) a debt is settled.
 - C) a person purchases a bond.
 - D) a person buys gold.

Answer: A

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Previous Edition

- 3) Reduction or elimination of dividend taxes is designed, in part, to
- A) reduce the double taxation burden on individuals.
 - B) make rich people richer.
 - C) reduce inefficiencies in the production process.
 - D) increase corporate tax levels.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 4) A capital gain is defined as
- A) the tax paid when one sells an asset.
 - B) the positive difference between the sale price and the purchase price of an asset.
 - C) the tax rate one pays when one moves into a higher tax bracket.
 - D) an unanticipated increase in income.

Answer: B

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Previous Edition

- 5) Suppose you purchased 100 shares of stock in 2000 for \$25 a share and you sell them today for \$50 a share. If the capital gains tax is 28 percent, your tax liability is
- A) \$70.
 - B) \$700.
 - C) \$2500.
 - D) indeterminate without knowing the inflation rate.

Answer: B

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Corporate profits are
- A) taxed at too low a rate.
 - B) taxed only when a stockholder sells his or her shares of stock.
 - C) taxed twice—once by the corporate tax system, and again by personal tax system when they are paid to stockholders as dividends.
 - D) taxed three times—once by the corporate tax system, again by the personal tax system, and again as capital gains.

Answer: C

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Some economists argue that corporate income taxes are typically not paid by firms, but by
- A) stockholders, employees, and consumers.
 - B) the government.
 - C) bond holders.
 - D) the board of directors of the firm.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The corporate income tax in the United States
- A) excludes dividends paid out.
 - B) only taxes retained earnings.
 - C) results in individuals' being doubly taxed on corporate earnings.
 - D) does not apply to profits earned on exports.

Answer: C

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Social Security taxes are
- A) progressive because all workers pay the tax.
 - B) regressive because higher income workers pay taxes on a smaller percentage of their income.
 - C) proportional because everyone is charged the same percentage tax rate.
 - D) regressive because higher income workers don't pay the tax.

Answer: B

Diff: 3

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Social Security taxes are regressive because
- A) they apply only to rich people.
 - B) they are not applied to income beyond a certain amount.
 - C) they are applied to welfare recipients.
 - D) they are applied to retired people only.

Answer: B

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The responsibility of paying for the Social Security benefits for currently retired individuals falls on
- A) current and future workers.
 - B) the retired people themselves.
 - C) no one, since the government prints the money.
 - D) only working people over 50 years of age.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 12) The distribution of tax burdens among various groups in society is referred to as
- A) sectioning.
 - B) regressive placement.
 - C) zero-base budgeting.
 - D) tax incidence.

Answer: D

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Previous Edition

- 13) Which of the following is an argument that the incidence of corporate taxation falls entirely on consumers?
- A) Corporations pass their tax burdens on to consumers by charging higher prices equal to the amount of the tax.
 - B) Corporations pass their tax burdens on to consumers because consumers ultimately work for the corporations.
 - C) Corporations always evade taxes so that consumers ultimately bear the tax burdens as taxpayers.
 - D) Most taxes on consumers are collected by corporations through sales taxes.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Revised

- 14) The largest share of federal government tax receipts is derived from
- A) corporate income taxes.
 - B) excise taxes.
 - C) social insurance contributions.
 - D) individual income taxes.

Answer: D

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

15) Which of the following forms of taxation accounts for the largest share of taxes received by state and local governments?

- A) sales, excise, and gross receipts taxes
- B) personal and corporate income taxes
- C) license and permit fees
- D) property taxes

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

16) Local government expenditures depend on which taxes?

- A) Revenues from licenses and permits
- B) Local property, sales, and excise taxes
- C) Capital gains taxes
- D) Social Security taxes

Answer: B

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

17) When the purchase price of an asset is less than its sale price, then there is a

- A) budget deficit.
- B) corporate income tax.
- C) capital gain.
- D) capital loss.

Answer: D

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

18) Suppose you purchased 100 shares of stock in 2009 for \$20 a share, and the price now is \$30 a share. If you sell the stock, then your capital gain is

- A) \$1000.
- B) \$3000.
- C) \$1500.
- D) indeterminate without knowing the inflation rate.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Eight years ago you purchased an asset for \$100,000 that has yielded a nominal capital gain of \$30,000. If you sold the asset today, your inflation-adjusted capital gains would be zero due to inflation over the last eight years. The capital gains tax is 28 percent. If you sold the asset today your tax liability would be
- A) zero.
 - B) \$28,000.
 - C) \$8,400.
 - D) cannot be determined without more information.

Answer: C

Diff: 3

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Suppose the capital gains tax is 28 percent and you purchased a house ten years ago for \$80,000. If you sold the house today you would get \$140,000. Your tax liability would be
- A) \$39,200.
 - B) \$16,800.
 - C) indeterminate without knowing the inflation rate.
 - D) indeterminate without knowing the personal income tax rate.

Answer: B

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 21) The reason a corporation has retained earnings is to
- A) pay unemployment taxes.
 - B) make investments that will increase the value of the stock.
 - C) avoid the double taxation of corporate profits.
 - D) be able to make unemployment payments.

Answer: B

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Corporate profits are taxed twice because
- A) taxes are collected on profits before profits are distributed to shareholders.
 - B) the government wants to minimize the amount of tax paid on capital gains.
 - C) it is economically efficient to reduce the amount of retained earnings.
 - D) capital gains are not indexed to the rate of inflation.

Answer: A

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 23) The earnings that a corporation saves for investment in other productive activities are
- A) capital gains.
 - B) tax incidence.
 - C) transfers in kind.
 - D) retained earnings.

Answer: D

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Retained earnings are
- A) the funds held back to pay out dividends.
 - B) the funds used to pay corporate taxes.
 - C) profits not given out to stockholders.
 - D) the reason there is double taxation.

Answer: C

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Previous Edition

- 25) Tax incidence refers to
- A) determining who sends the taxes into the government.
 - B) the tendency of some people to avoid paying taxes at all.
 - C) the distribution of tax burdens among groups, or who really pays a tax.
 - D) determining the marginal tax rate applied to any increase in income.

Answer: C

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Previous Edition

- 26) The distributions of tax burdens among various groups in society is known as
- A) a proportional tax.
 - B) a progressive tax.
 - C) a regressive tax.
 - D) tax incidence.

Answer: D

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Previous Edition

- 27) The largest source of receipts for the federal government is
- A) corporate income taxes.
 - B) personal income taxes.
 - C) capital gains taxes.
 - D) Social Security taxes.

Answer: B

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Social Security taxes are paid by
- A) employers only.
 - B) employees only.
 - C) both employers and employees.
 - D) neither employers nor employees.

Answer: C

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 29) When the profits of a corporation are taxed and the dividends paid to stockholders are also taxed,
- A) the government is engaging in double taxation.
 - B) the government is engaging in capital gains taxation.
 - C) the government is engaging in regressive taxation.
 - D) the government is engaging in progressive taxation.

Answer: A

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 30) One criticism of the corporate income tax is that
- A) it is too regressive.
 - B) it is too flat.
 - C) it is so complex to administer that corporate income taxes are rarely collected by the Internal Revenue Service.
 - D) a portion of the corporations' tax burden is passed on to consumers via higher prices for goods and services and to workers via lower wages.

Answer: D

Diff: 3

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 31) The tax that brings in the most revenue in the United States is the
- A) capital gains tax.
 - B) corporate income tax.
 - C) Social Security tax.
 - D) personal income tax.

Answer: D

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Previous Edition

- 32) State and local governments receive most of their revenue from
- A) sales and excise taxes, revenue from the federal government, and property taxes.
 - B) individual income taxes, social insurance contributions, and property taxes.
 - C) corporate income taxes, property taxes, and personal income taxes.
 - D) property taxes, sales and excise taxes, and Social Security contribution.

Answer: A

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Which one of the following statements is true?
- A) In a proportional tax system, the marginal tax rate always exceeds the average tax rate.
 - B) In a proportional tax system, the average tax rate always exceeds the marginal tax rate.
 - C) The U.S. Social Security tax is proportional.
 - D) The U.S. Social Security tax is regressive.

Answer: D

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Which of the following is subject to double taxation?
- A) income earned by people in the lowest tax bracket
 - B) Social Security income
 - C) dividends and retained earnings
 - D) income earned by government employees

Answer: C

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 35) A friend tells you he is studying the incidence of the corporate income tax. What is the subject of his study?
- A) how frequently corporations should be taxed
 - B) how inflation affects the amount of tax revenue collected from firms
 - C) how corporations can aid the government in collecting delinquent taxes
 - D) how the burden of corporate taxation is distributed among stockholders, employees, and consumers

Answer: D

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 36) The three possible sources of government funding include
- A) explicit fees, taxes, and borrowing.
 - B) international income, personal income taxes, and export taxes.
 - C) foreign aid, revenues, and implicit fees.
 - D) None of the above are correct.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Which of the following is NOT an important source of revenue for the federal government?
- A) individual income taxes
 - B) property taxes
 - C) social insurance taxes and contributions
 - D) corporate income taxes

Answer: B

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Using the fiscal year 2009 estimates, the largest component of federal revenue is the
- A) individual income tax.
 - B) corporate income tax.
 - C) excise tax.
 - D) social insurance and contributions.

Answer: A

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Using the fiscal year 2009 estimates, the largest component of state and local revenue is the
- A) individual income tax.
 - B) corporate income tax.
 - C) revenue from the federal government.
 - D) sales, excise, and gross receipts taxes.

Answer: D

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 40) For all earnings subject to Social Security taxes, what is the current Social Security tax rate?
- A) 0.8%
 - B) 2.9%
 - C) 6.2%
 - D) 9.1%

Answer: C

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB:

Question Status: Revised

41) The Social Security program is financed directly from

- A) voluntary contributions by the elderly.
- B) sales taxes on goods with inelastic demand.
- C) payroll taxes.
- D) poll taxes.

Answer: C

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Revised

42) Social Security contributions are

- A) a voluntary dollar amount that people contribute towards Social Security.
- B) entirely paid by your employer.
- C) mandatory taxes partially paid out of workers' wages and salaries.
- D) collected only from people earning more than \$80,000 a year.

Answer: C

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Revised

43) A current concern about Social Security is that

- A) funds set aside by past generations to pay benefits for future generations are growing too rapidly and may trigger inflation.
- B) promised benefit payouts are growing more rapidly than likely sources of revenues, indicating a future inability to keep the system operating.
- C) continued political bickering between the president and Congress could lead to an end to any funding of the program.
- D) the payroll taxes used to fund the program are being eliminated as part of an effort to generate employment increases, thus leaving the program bankrupt.

Answer: B

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Revised

44) Current concern about Social Security is that

- A) the fund is growing too rapidly and would trigger inflation.
- B) the fund might be depleted before long and might not be there for workers who retire later.
- C) the government is planning to phase out the program.
- D) none of the above

Answer: B

Diff: 1

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Revised

- 45) Ultimately, the real burden of paying for Social Security benefits will be paid for by
- A) taxes levied on workers.
 - B) Social Security trust fund bonds.
 - C) new federally issued Treasury bills.
 - D) a new tax levied on businesses.

Answer: A

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Revised

- 46) The Social Security system was founded
- A) during the Civil War, to pay pensions for veterans.
 - B) during the last years of the nineteenth century, as people who had once depended on having a family farm found themselves without a means of support.
 - C) as the United States began to recover from the Great Depression.
 - D) in response to concerns that arose during the high inflation of the 1970s.

Answer: C

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Revised

- 47) What is meant by the term "tax incidence"? What is the tax incidence of the personal income tax? What is the tax incidence of the corporate income tax?

Answer: Tax incidence refers to the distribution of tax burdens among various groups in society. The tax incidence of the personal income tax is on those who pay the taxes. On the other hand, economists are uncertain as to the tax incidence of the corporate income tax. It may be borne by stockholders, consumers, workers, or bondholders.

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 48) In what way is corporate income subject to double taxation?

Answer: The double taxation of corporate income is that corporations pay taxes on its income and then their stockholders also pay taxes on dividend earnings.

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Explain how corporate profits are taxed twice.

Answer: Corporate profits are taxed by the corporate income tax first. Second, dividends paid out of profits are taxed as personal income of the stockholders. If the company does not pay dividends but the value of the stock goes up, the stockholder will pay capital gains tax when he or she sells the stock.

Diff: 2

Topic: 6.3 The Most Important Federal Taxes

AACSB: Analytic skills

Question Status: Previous Edition

6.4 Tax Rates and Tax Revenues

- 1) Sales taxes are
- A) assessed on the prices paid on a large set of goods and services.
 - B) levied on purchases of a particular good or service.
 - C) based on each individual taxpayer's income level.
 - D) collected only by the U.S. government.

Answer: A

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB:

Question Status: Previous Edition

- 2) *Ad valorem* taxes
- A) are not used in the United States.
 - B) are assessed as a percentage of a good's price.
 - C) are based on income levels.
 - D) are applied only to imports.

Answer: B

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB:

Question Status: Previous Edition

- 3) A *ad valorem* sales tax can be thought of as
- A) a proportional tax.
 - B) not part of the tax base.
 - C) a revenue source for county governments only.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Governments have to rely on taxes for financing because
- A) they cannot borrow unlimited amounts.
 - B) they usually spend all of the gold reserves.
 - C) gold prices have fallen steadily over the years.
 - D) they are not allowed to sell bonds.

Answer: A

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Which of the following statements is TRUE of static tax analysis?
- A) A government receives lower tax revenues by raising the tax rate.
 - B) A government receives higher tax revenues by raising the tax rate.
 - C) A government cannot change its tax revenues by changing the tax rate.
 - D) A change in the tax rate can raise or lower tax revenues, depending on other factors.

Answer: B

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Dynamic tax analysis is based on the recognition that as tax rates are increased,
- A) tax revenue collections will eventually decline.
 - B) tax revenue collections will continually increase.
 - C) tax revenue collections will change at the same rate as the tax rates.
 - D) tax revenue collections will increase at a faster rate than the tax rate change.

Answer: A

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 7) A government wishing to maximize its tax revenues should
- A) always assess the highest possible tax rate.
 - B) always assess the lowest possible tax rate.
 - C) determine the highest possible tax rate and then back it down by exactly 4 percentage points.
 - D) push tax rates up to the point where revenues peak, but raise the tax rate no farther.

Answer: D

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Which of the following statements is FALSE about the issues faced by the government when contemplating a tax?
- A) Consideration must be given to how tax rates relate to the amount actually received.
 - B) Consideration must be given to how taxes influence market prices.
 - C) Consideration must be given to how taxes influence equilibrium quantity.
 - D) Consideration must be given to the amount of funds the government will be receiving from the transfer payments paid by the public to the government.

Answer: D

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

9) The value of goods, services, incomes or wealth subject to taxation is

- A) the tax base.
- B) a sales tax.
- C) the collected tax revenue.
- D) a unit tax.

Answer: A

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB:

Question Status: Previous Edition

10) A sales tax is

- A) a tax assessed on personal income.
- B) a tax assessed on the prices paid for numerous goods and services.
- C) a tax assessed on a public good.
- D) the total tax base.

Answer: B

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB:

Question Status: Previous Edition

11) Ad valorem taxation

- A) refers to the personal income tax.
- B) is used to tax goods but not services.
- C) is assessed by charging a tax rate as a fraction of the market price of a good.
- D) is a tax that is applied only to cigarettes and alcohol.

Answer: C

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

12) An example of ad valorem taxation is

- A) a luxury tax.
- B) the corporate profit tax.
- C) the personal income tax.
- D) the Social Security tax.

Answer: A

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Reflective thinking skills

Question Status: Revised

13) Static tax analysis assumes that

- A) an increase in a tax rate may lead to a decrease in the tax base.
- B) an increase in a tax rate will lead to an increase in the tax base.
- C) an increase in a tax rate will leave the tax base unchanged.
- D) the tax base will always remain unchanged.

Answer: C

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB:

Question Status: Previous Edition

- 14) Dynamic tax analysis assumes that
- A) an increase in a tax rate may lead to a decrease in the tax base.
 - B) an increase in a tax rate will lead to an increase in the tax base.
 - C) an increase in a tax rate will leave the tax base unchanged.
 - D) the tax base will always remain unchanged.

Answer: A

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB:

Question Status: Previous Edition

- 15) A 2 percent tax is going to be applied to a \$100,000 tax base. What can be said about the revenue collected assuming static tax analysis?
- A) The total revenue will be zero.
 - B) The total revenue will be between \$0 and \$2,000.
 - C) The total revenue will be \$2,000.
 - D) There is not enough information to determine what revenues will equal.

Answer: C

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 16) A 2 percent tax is going to be applied to a \$100,000 tax base. What can be said about the revenue collected assuming dynamic tax analysis?
- A) The total revenue will be zero.
 - B) The total revenue will be between \$0 and \$2,000.
 - C) The total revenue will be \$2,000.
 - D) There is not enough information to determine what revenues will equal.

Answer: B

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 17) In what type of analysis will an increase in the tax rate always lead to an increase in tax revenues?
- A) Ad valorem taxation
 - B) Excise taxation
 - C) Dynamic tax analysis
 - D) Static tax analysis

Answer: D

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

18) In what type of analysis could an increase in the tax rate lead to a decrease in tax revenues?

- A) Ad valorem taxation
- B) Excise taxation
- C) Dynamic tax analysis
- D) Static tax analysis

Answer: C

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

19) The Mayor of Stuckeyville is considering increasing the tax on bowling. He is confident that tax revenues will increase but recognizes the possibility that they may decrease. The mayor is engaging in

- A) dynamic tax analysis.
- B) static tax analysis.
- C) a policy that will cause the tax base to increase.
- D) a policy that will cause the tax base to remain unchanged.

Answer: A

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

20) A major criticism of static tax analysis is that it

- A) uses only ad valorem taxes.
- B) does not use ad valorem taxes.
- C) ignores the incentive effects created by higher tax rates.
- D) assumes that the tax base will not increase.

Answer: C

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

21) Which of the following statements about taxation is TRUE?

- A) Increasing taxes will always increase tax revenues.
- B) Static tax analysis recognizes that an increase in taxation could lead to a decrease in tax revenues.
- C) Dynamic tax analysis assumes that an increase in taxation will leave the tax base unchanged.
- D) There is a tax rate at which tax revenues are maximized.

Answer: D

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 22) If the government wishes to maximize its tax revenue, it should
- A) recognize that too high of a tax rate can decrease the tax base.
 - B) engage in static tax analysis.
 - C) recognize that an increase in the tax rate will lead to an increase in tax revenues.
 - D) use only flat taxes.

Answer: A

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 23) A local government currently has a tax base of \$4 billion and a tax rate of 5 percent. If the tax rate is increased to 6 percent, the tax base will decrease to \$3.5 billion. If the goal is to maximize tax revenues the tax rate should be
- A) lowered below 5 percent.
 - B) kept at 5 percent.
 - C) raised to 6 percent.
 - D) abolished.

Answer: C

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 24) A local government currently has a tax base of \$4 billion and a tax rate of 5 percent. If the tax rate is increased to 6 percent, the tax base will decrease to \$3.2 billion. If the goal is to maximize tax revenues the tax rate should be
- A) raised above 6 percent.
 - B) kept at 5 percent.
 - C) raised to 6 percent.
 - D) abolished.

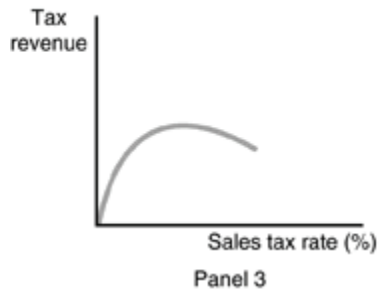
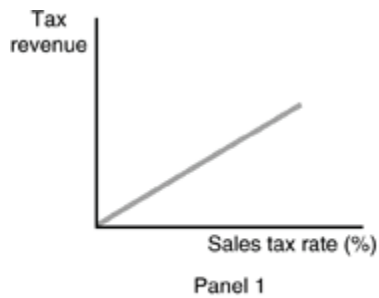
Answer: B

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: New



- 25) Refer to the above figures. Which panel represents the expected relationship between tax revenue and the sales tax rate if static tax analysis is used?

A) Panel 1 B) Panel 2 C) Panel 3 D) Panel 4

Answer: A

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Refer to the above figures. Which panel represents the expected relationship between tax revenue and the sales tax rate if dynamic tax analysis is used?

A) Panel 1 B) Panel 2 C) Panel 3 D) Panel 4

Answer: C

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Which of the following are considered *ad valorem* taxes?

A) taxes assessed by charging a rate equal to a percentage of an item's price
 B) taxes assessed by charging a flat amount per unit purchased
 C) taxes based on the amount of debt that the government must repay
 D) taxes based on the amount of spending the government will undertake

Answer: A

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Assume that the government one day decides to tax greens fees at all state golf courses. To the government's dismay, not only was the amount of tax collected small, but there was a 90 percent decline in golfing. What type of tax analysis did the government apparently rely upon when it imposed this tax?

A) static tax analysis
 B) dynamic tax analysis
 C) transaction cost analysis
 D) ad hoc tax analysis

Answer: A

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 29) *Ad valorem* taxation means

A) that only the value added by a service provider is taxed.
 B) that the tax rate is a percentage of the price paid for a product.
 C) a negative income tax.
 D) a progressive property tax imposed in some states.

Answer: B

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB:

Question Status: Previous Edition

- 30) According to dynamic tax analysis, continually increasing the tax rate will eventually

A) cause an increase in the tax base.
 B) have no impact on the tax base.
 C) cause a decrease in the tax base.
 D) result in an initial decrease in the tax base followed ultimately by a rise in the tax base.

Answer: C

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Dynamic tax analysis is an economic evaluation of tax rate changes

A) by the National Tax Institute in Burlington, Massachusetts.
 B) by various state governments.
 C) by the tax institutes established by a consortium of business schools.
 D) based on the assumption that tax base declines if tax rates continuously increase.

Answer: D

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

32) Dynamic tax analysis generally predicts

- A) that the higher the tax rate is, the higher the tax revenue will continue to be into the future.
- B) that the higher tax rates lead to higher revenues only to a point at which revenues will begin to decrease due to a diminishing tax base.
- C) that lower tax rates will always and continuously lead to increased tax revenues.
- D) that lower tax rates are always going to lead to decreased tax revenues.

Answer: B

Diff: 3

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

33) In order for the government to collect taxes, the government must first establish a(n)

- A) *ad valorem* taxation.
- B) tax base.
- C) philosophy of taxation.
- D) justice system.

Answer: B

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

34) State sales taxes are operated as a system of

- A) *ad valorem* taxation.
- B) unit taxation.
- C) income taxation.
- D) revenue minimizing taxation.

Answer: A

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

35) To set a tax rate at the appropriate level to maximize its tax revenues, a government must engage in

- A) static tax analysis.
- B) dynamic tax analysis.
- C) debt-free tax analysis.
- D) *ad valorem* tax analysis.

Answer: B

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

36) Static tax analysis assumes

- A) all of the present tax rates will be in place for a minimum of twenty years.
- B) changes in the tax rates have no effect on the tax base.
- C) changes in the tax rates have no effect on tax revenue.
- D) changes in the tax rates will change the tax base.

Answer: B

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

37) Dynamic tax analysis assumes

- A) all of the present tax rates will be in place for a minimum of twenty years.
- B) changes in the tax rates have no effect on the tax base.
- C) changes in the tax rates have no effect on tax revenue.
- D) changes in the tax rates will change the tax base.

Answer: D

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

38) Explain why an increase in the tax rate can result in lower tax revenues.

Answer: According to dynamic tax analysis, consumers may react to a higher tax rate by cutting back on purchases of goods and services included in the tax base. The reduction in the tax base may eventually be sufficiently large so that tax revenues decline.

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

39) A government is thinking about increasing the sales tax rate. Should it use static or dynamic tax analysis? Explain why one approach is better than the other.

Answer: The government should use dynamic tax analysis. When estimating the expected revenue generated by the sales tax, it is important to remember that the tax base could be influenced. If the tax base decreases sufficiently in response to a tax-rate increase, total revenues may be reduced even though there has been an increase in the sales tax rate.

Diff: 2

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

40) According to dynamic tax analysis, will continuing to push up the tax lead to steady increases in tax revenues? Why?

Answer: In dynamic tax analysis, the tax base will eventually decline for ever-higher tax rates. This means that tax revenues will eventually fall at sufficiently high tax rates.

Diff: 1

Topic: 6.4 Tax Rates and Tax Revenues

AACSB: Analytic skills

Question Status: Previous Edition

6.5 Taxation from the Point of View of Producers and Consumers

- 1) Imposing a tax on sales of a product
- A) shifts the market demand curve for the product.
 - B) shifts the market supply curve for the product.
 - C) shifts both the market supply and demand curve for the product.
 - D) has no effect on either the market demand or the market supply curve for the product.

Answer: B

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 2) What happens when the government imposes a unit excise tax on a good?
- A) The amount of the tax is added to the current equilibrium price.
 - B) The demand for the newly taxed good decreases.
 - C) That good's supply curve shifts down by the amount of the tax.
 - D) The newly taxed good's supply curve shifts vertically upward by the amount of the per-unit tax being levied.

Answer: D

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 3) The imposition of a unit excise tax on beer will
- A) lower equilibrium price and quantity in the market.
 - B) increase equilibrium quantity and price in the market.
 - C) lower equilibrium quantity and raise equilibrium price in the market.
 - D) raise equilibrium quantity and lower equilibrium price in the market.

Answer: C

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 4) The government imposes a unit excise tax on bubble gum. What happens as a result?
- A) The equilibrium quantity of bubble gum increases.
 - B) At the original market price, there will be a bubble gum shortage.
 - C) At the original market price, there is a bubble gum shortage and so price rises.
 - D) There will be no change in either the market price or equilibrium quantity as long as the excise tax rate is 5 percent or less.

Answer: C

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Unit excise taxes imposed on gasoline, alcohol, and cigarettes are
- A) largely paid by the producers because they want to maintain their level of sales.
 - B) largely paid by consumers because they are not very responsive to price changes.
 - C) shared equally between the producer and the consumer.
 - D) paid by the wholesalers of these products.

Answer: B

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 6) How can we anticipate the proportion of a newly imposed unit excise tax that consumers will pay?
- A) Consumers will pay most of the tax whenever their demand for a product is relatively unresponsive to price changes.
 - B) Consumers will always pay 100 percent of an excise tax.
 - C) Consumers will pay most of the tax whenever their demand for the product is very price sensitive.
 - D) Since producers always pay 100 percent of an excise tax, we know consumers will not pay any of the tax.

Answer: A

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Imposing a unit excise tax on the final sale of a good or service can be displayed graphically as
- A) a vertical shift upward of the demand curve.
 - B) a vertical shift upward of the supply curve.
 - C) a vertical shift downward of the demand curve.
 - D) a vertical shift downward of the supply curve.

Answer: B

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Which of the following is TRUE about the effects of an excise tax if consumers are totally unresponsive to price changes?
- A) Consumers pay all of the excise tax.
 - B) Producers pay all of the excise tax.
 - C) Consumers and producers share the excise tax equally.
 - D) Neither consumers nor producers pay the excise tax.

Answer: A

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 9) A tax levied on purchases of a particular good or service
- A) is illegal because it is discriminatory.
 - B) always leads to a reduction in total tax revenues.
 - C) always leads to an increase in total tax revenues.
 - D) is an excise tax.

Answer: D

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB:

Question Status: Previous Edition

- 10) A unit tax
- A) is based on the value of the good being sold.
 - B) is a constant tax assessed on each unit of a good sold.
 - C) is the primary tax studied in dynamic tax analysis.
 - D) does not influence equilibrium price and quantity.

Answer: B

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB:

Question Status: Previous Edition

- 11) Which of the following is true of an excise tax?
- A) An excise tax is always a unit tax.
 - B) An excise tax is levied on purchases of particular good or service.
 - C) An excise tax is based on an individual's income.
 - D) Imposing an excise tax shifts the market demand curve.

Answer: B

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB:

Question Status: Previous Edition

- 12) If we wanted to analyze the effects of a \$2 unit tax graphically, we would shift the
- A) supply curve upward by \$2.
 - B) supply curve downward by \$2.
 - C) demand curve upward by \$2.
 - D) demand curve downward by \$2.

Answer: A

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 13) The imposition of a new excise tax will
- A) increase equilibrium price and increase equilibrium quantity.
 - B) increase equilibrium price and decrease equilibrium quantity.
 - C) decrease equilibrium price and increase equilibrium quantity.
 - D) decrease equilibrium price and decrease equilibrium quantity.

Answer: B

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 14) A unit tax of \$0.50 has been levied on a good. The equilibrium price of the good will most likely
- A) increase by \$0.50.
 - B) remain unchanged.
 - C) decrease by \$0.50.
 - D) increase by an amount less than \$0.50.

Answer: D

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 15) A unit tax of \$0.60 will always
- A) shift the supply curve upward by more than \$0.60.
 - B) shift the supply curve upward by less than \$0.60.
 - C) shift the supply curve up by exactly \$0.60.
 - D) leave the supply curve unchanged.

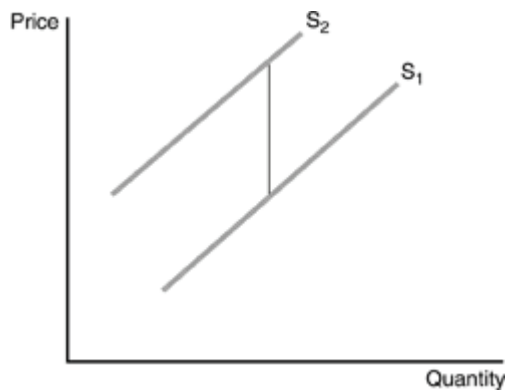
Answer: C

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition



- 16) Refer to the above figure. A unit tax of \$.30 has been placed on the good. Which of the following statements is true about the vertical distance between S_1 and S_2 ?
- A) The distance is less than \$.30.
 - B) The distance is \$.30.
 - C) The distance is more than \$.30.
 - D) The distance cannot be determined with the information given.

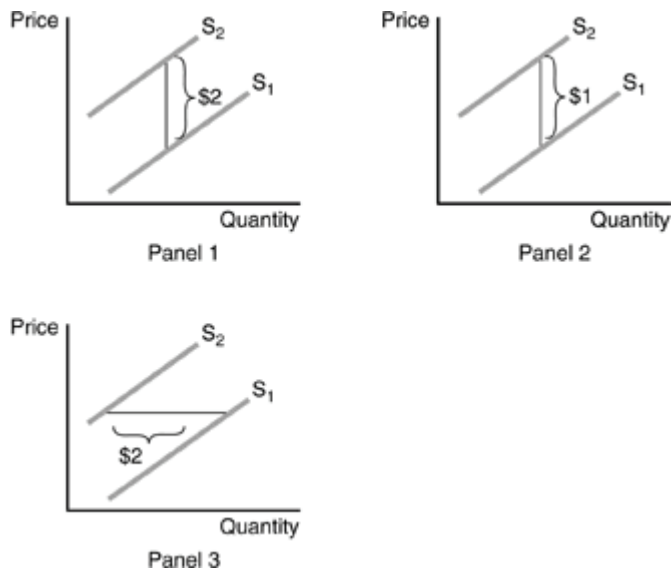
Answer: B

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition



17) Refer to the above figures. A unit tax of \$2 has been levied on a good. Which of the panels depict the effect of the taxes?

- A) Panel 1.
- B) Panel 2.
- C) Panel 3.
- D) None of the diagrams reflect the effect of the tax.

Answer: A

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 21) When a unit tax of \$0.50 is levied on a product
- A) the entire \$0.50 is paid by the consumer.
 - B) the entire \$0.50 is paid by the producer.
 - C) both the consumer and producer pay \$0.50 each.
 - D) the consumer pays part of the \$0.50 and the producer pays the rest.

Answer: D

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Which of the following statements about excise taxes is TRUE?
- A) The producer will increase the price of the good by the amount of the excise tax.
 - B) The equilibrium price will increase and the equilibrium quantity will remain unchanged.
 - C) Both the consumer and producer pay part of the excise tax.
 - D) Consumers will refuse to pay excise taxes forcing the producers to pay it.

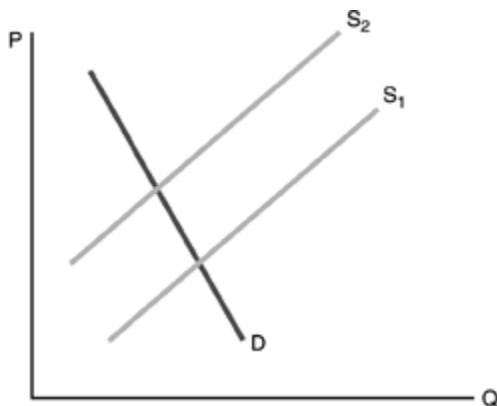
Answer: C

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition



- 23) Refer to the above figure. An excise tax of \$0.50 was imposed on this good. From the figure we can see that the
- A) producer will bear most of the tax.
 - B) consumer will bear most of the tax.
 - C) consumer and producer will share the tax.
 - D) amount of the tax collected is less than \$0.50.

Answer: B

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 24) How would the market for coffee be affected if the government charged an excise tax of \$1.00 on each unit of coffee sold?
- A) There would be a shortage of coffee.
 - B) The demand for coffee would increase.
 - C) The demand for coffee would decrease.
 - D) The supply curve would shift up vertically by \$1.00.

Answer: D

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 25) How would the market for DVDs be affected if the government charged an excise tax of \$3.00 on each DVD sold?
- A) The supply of DVDs would decrease.
 - B) The demand for DVDs would increase.
 - C) The demand for DVDs would decrease.
 - D) The price of DVDs would rise by \$3.00.

Answer: A

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 26) How does the imposition of an excise tax on a good affect its market equilibrium?
- A) Equilibrium quantity decreases, and equilibrium price decreases.
 - B) Equilibrium quantity decreases, and equilibrium price increases.
 - C) Equilibrium quantity increases, and equilibrium price decreases.
 - D) Equilibrium quantity increases, and equilibrium price increases.

Answer: B

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 27) What determines the proportion of a unit excise tax that will be passed on to consumers in the form of higher prices?
- A) the nature of the projects funded by the tax
 - B) the number of additional taxes that consumers have to pay
 - C) the popularity of the tax
 - D) the degree to which quantity demanded and supplied of the good respond to price changes

Answer: D

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 28) The imposition of a tax on a product
- A) shifts the supply curve to the right.
 - B) shifts the demand curve to the right.
 - C) shifts both the supply and the demand curve to the right.
 - D) shifts the supply curve to the left.

Answer: D

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

Price	Quantity Demanded	Quantity Supplied	Quantity Supplied After Tax
\$5	10	40	30
\$4	15	35	25
\$3	20	30	20
\$2	25	25	15
\$1	30	20	5

- 29) The demand and supply of a product is given in the above table. A unit tax of \$2 is imposed on the product. The equilibrium quantity for this product after the tax is imposed is equal to
- A) 30 units.
 - B) 25 units.
 - C) 20 units.
 - D) 15 units.

Answer: C

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Using the above table, a unit tax of \$2 is imposed on the product. The equilibrium price of this product after the tax is imposed is
- A) \$5.
 - B) \$4.
 - C) \$3.
 - D) \$2.

Answer: C

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Using the above table, a unit tax of \$2 is imposed on the product. How much of the tax is paid by the consumer?
- A) \$1.
 - B) \$2.
 - C) \$3.
 - D) unable to determine.

Answer: A

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: New

- 32) Using the above table, a unit tax of \$2 is imposed on the product. How much of the tax is paid by the producer?

A) \$2.
B) \$1.
C) \$3.
D) unable to determine.

Answer: B

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: New

- 33) An excise tax on gasoline causes

A) supply of gasoline to shift to the left.
B) a reduction in the quantity of gasoline demanded.
C) the market clearing price of gasoline to rise.
D) All of the above are correct.

Answer: D

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 34) An excise tax is a tax that is levied on

A) the value of a piece of property.
B) the purchase of a given good or service.
C) the value of an estate.
D) that part of a person's income coming from interest payments.

Answer: B

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB:

Question Status: Previous Edition

- 35) A tax levied on the purchase of a specific good or service is

A) an excise tax.
B) a consumption tax.
C) a purchase tax.
D) a value tax.

Answer: A

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB:

Question Status: Previous Edition

- 36) A state tax assessed specifically on cigarettes is an example of

A) an excise tax.
B) a consumption tax.
C) a social tax.
D) a tariff.

Answer: A

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Reflective thinking skills

Question Status: Previous Edition

37) An excise tax

- A) acts as a negative incentive to consume that good or service.
- B) is illegal in Florida, Georgia, and Alaska.
- C) is often used to encourage the use of a good.
- D) is a value added tax (VAT).

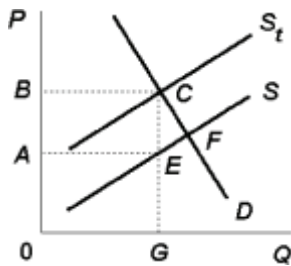
Answer: A

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition



38) Using the above figure, if the government levies a new unit tax in this market, S represents the original supply curve, and S_t represents the after-tax supply curve, then the revenues that the government collects from imposing this tax is represented on this graph by

- A) OAEG.
- B) OBCG.
- C) BAEC.
- D) CEF.

Answer: C

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

39) Using the above figure, if the government levies a new unit tax in this market, S represents the original supply curve, and S_t represents the after-tax supply curve, then the after-tax price paid by consumers is the vertical distance from the origin to

- A) point A.
- B) point B.
- C) somewhere between point B and point A.
- D) point F.

Answer: B

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 40) If a unit excise tax is placed on a good for which the demand is very unresponsive to a price change, then
- A) the government generally pays the majority of the tax.
 - B) the consumers generally pay the majority of the tax.
 - C) the producers generally pay the majority of the tax.
 - D) producers and consumers pay equal portions of the tax.

Answer: B

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 41) Sales taxes are routinely collected by
- A) the merchants selling the good or services.
 - B) the Internal Revenue Service.
 - C) the Department of Commerce.
 - D) the Federal Trade Commission.

Answer: A

Diff: 1

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 42) Should the government wish to lower the price of gasoline to the consumer, one approach might be
- A) to raise the gasoline excise tax.
 - B) to reduce the gasoline excise tax.
 - C) to take action to shift the supply curve of gasoline to the left.
 - D) to lower taxes on automobiles.

Answer: B

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 43) How is the market for gasoline affected if the excise tax on gasoline is reduced?
- A) The supply of gasoline decreases.
 - B) The supply of gasoline increases.
 - C) The equilibrium quantity of gasoline decreases.
 - D) The equilibrium price of gasoline increases.

Answer: B

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 44) If a state government wants to collect the maximum tax revenue from a unit excise tax, which of the following would they tax?

A) cigarettes
 B) beef hamburgers
 C) luxury cars
 D) concert t-shirts

Answer: A

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 45) If a new unit excise tax is levied on bottles of wine, the

A) demand for wine shifts to the left.
 B) demand for wine shifts to the right.
 C) supply of wine shifts to the right.
 D) supply of wine shifts to the left.

Answer: D

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Explain why it is that how much consumers pay for an excise tax depends on how responsive they are to a given change in market price.

Answer: If consumers are more responsive to a given change in market price, then the less they will bear the burden of an excise tax and the more producers will bear the burden of the tax. If consumers are more responsive to a change in the market price induced by an excise tax, then the market price will increase by a smaller amount than if consumers are very responsive to the change. The tax burden is effectively the difference between the market prices before and after the imposition of the tax.

Diff: 2

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 47) Using supply and demand analysis, graphically show what an excise tax does to equilibrium price and quantity. On your graph show the part of the tax paid by the consumer and the part paid by the producer.

Answer: Total tax = $P_2 - P_0$

Consumer's portion = $P_2 - P_1$

Producer's portion = $P_1 - P_0$

Diff: 3

Topic: 6.5 Taxation from the Point of View of Producers and Consumers

AACSB: Reflective thinking skills

Question Status: Previous Edition