Wilf Csaplar Jr.   Economics 162   Homework #3   Due 09/21

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you do double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points each) For each of the items below, explain why it is an <u>economic</u> reason for government intervention in the market.
A) Income redistribution.
B) Legal system.

2) (20 points) Explain the difference between spending money and majority rule. Give an example that shows how the two could give very different outcomes. (Of interest, one conclusion of *Arrow's Impossibility Theorem* is that there is no perfect voting scheme.)

3) (20 points) Using Table 6-1 in the book, calculate the *total tax burden*, *average tax rate*, and *marginal tax rate*. For a single person earning $50,000. Show all work and if there is no work, then briefly explain what you did. (If you have an old version of the book, copy the table from somebody else with the new version.)

4) (20 points) Draw a diagram which will show the tax revenue received as the sales tax rate goes up. Explain the economic reason why an increase in the tax rate could cause the tax revenue to decrease.

5) (10 points) What is a *regressive tax*? Why do I say that a sales tax on all goods is a regressive tax?