

Place your name on the back of this sheet of paper and nowhere else. 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 use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Assume your income is \$100,000. (I wish mine was.) Use the table on the right to determine your marginal tax rate, total taxes paid, and average tax rate. Show all work and briefly explain what you did if there was no work to show.

Income	Rate
\$0 - \$20,000	15%
\$20,000 - \$50,000	20%
\$50,000 - \$120,000	30%
>\$120,000	40%

2) (20 points) Draw the Laffer Curve. Explain why it takes its shape and in particular, explain how raising taxes could cause tax revenue to drop.

3) (20 points) Draw the supply and demand diagram for a product which is facing a steep (but not vertical) supply curve and a flat (but not horizontal) demand curve. Draw a tax on that product. Given your diagram, who pays most of the tax. Explain why the curve(s) moved as drawn and how you determined who paid most of the tax.

4A) (5 points) What is the problem facing Social Security?

B) (20 points) France is trying to raise its retirement age from 60 to 62. The current retirement age for you and me is 67. How would raising it to 69 help to reduce the problem? Would you do that? Why or why not?

C) (20 points) How would eliminating the cap on the Social Security tax reduce the problem? Would you do that? Why or why not?