

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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) Suppose the table to the right is the current tax schedule. Find the total taxes paid, average tax rate, and marginal tax rate for a person earning \$50,000. Show all work.

Bracket	Rate
\$0 - \$20,000	15%
\$20,000 - \$40,000	20%
\$40,000 - \$90,000	25%
>\$90,000	30%

2) (15 points) Draw the Laffer Curve. Explain why it takes that shape.

3A) (5 points) What is the problem facing Social Security?

3B) (20 points) Some people say we should raise the cap on the income which is subject to the tax. How will this reduce the problem? Would you use that method to reduce the problem? Why or why not?

3C) (20 points) Some people say we should raise the retirement age. How will this reduce the problem? Would you use that method to reduce the problem? Why or why not?

4) (25 points) Draw a supply and demand for corn with a steep supply curve and a flat demand curve. Illustrate the effects of a tax on corn. Explain why the curve(s) moved as drawn. **Given your diagram**, who pays most of the tax? Explain how you reached that conclusion.