

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) (20 points) Draw the supply and demand for bananas. Assume the demand is relatively flat and the supply is relatively steep. Illustrate the effects of a sales tax on bananas. Explain why the curve(s) moved as drawn. Find the tax incidence. Explain how you found it.
- 2) (15 points) From purely an economic efficiency respect, which would be a better tax, a tax on food or a tax on books. Explain your logic.
- 3) (15 points) Explain how raising a tax rate could yield less revenue. Use a mathematical example to prove your point.
- 4) (20 points) Why is the US government's deficit so hard to reduce? Explain referring to the general ways to reduce it and give specific reasons why those methods are hard to do.
- 5) (15 points) Explain two reasons why the poorest countries may not want an income tax.
- 6) (15 points) In the USA, dividends and capital gains are taxed at a lower tax rate than earned income. From an economic efficiency point of view, explain why this makes sense. (I personally think the law should be changed even though I have benefitted from it.)