

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) (10 points) What is the big problem facing the Social Security fund? State the two big causes of that problem.

A) (20 points) Some people have proposed increasing the retirement age again. (It has already been increased from 65 to 67.) How would this reduce the problem? Would you use this as part of your solution to the problem? Explain your logic.

B) (20 points) Some people have proposed increasing the return on the Social Security fund. Explain how this would work and how that would reduce the problem with Social Security. Would you use this as part of your solution to the problem? Explain your logic.

2) (15 points) Use the table to the right to calculate the marginal tax rate, total taxes paid, and average tax rate for a person who earns \$100,000 a year. Show all work. If there is no work briefly explain how you found the answer.

Bracket	Rate
\$0 - \$20,000	15%
\$20,000-\$50,000	25%
\$50,000- \$90,000	30%
\$90,000 - \$150,000	40%
>\$150,000	50%

3) (15 points) Explain how increasing a tax could cause tax revenue to go down. Use a numerical example in your explanation.

4) (20 points) Draw the supply and demand for coffee assuming that supply is relatively flat and the demand is relatively steep. Illustrate the effects of a tax on coffee. Explain why the curve(s) moved as drawn. Given your diagram, who pays most of the tax? Explain how you can tell.