

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 10 points. 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) Answer each part in separate paragraphs.

1A) (10 points) What is the problem facing Social Security? What are the two long-term causes of the problem?

1B) (20 points) One proposal to reduce the problem is to increase the retirement age. How would that reduce the problem? Would you use that as part of your solution to save Social Security? Explain your logic.

1C) (20 points) One proposal to reduce the problem is to increase the return on the lock box. How would that be done? How would that reduce the problem? Would you use that as part of your solution to save Social Security? Explain your logic.

2) (20 points) Suppose the tax brackets are given to the right. If a person earns \$100,000.00, then what are that person's marginal tax rate, total taxes paid, and average tax rate? Show all work. If there is no work, then state how you reached your conclusion.

Bracket	Rate
\$0 - \$30,000	15%
\$30,000 - \$80,000	20%
\$80,000 - \$120,000	25%
>\$120,000	30%

3) (20 points) What is the economic reason that increasing a tax rate could result in less tax revenue? Give a mathematical example which helps you to prove your point.

4) (10 points) Explain the difference between a progressive tax, regressive tax, and a proportional tax. Why do I feel that the typical sales tax is regressive?