Wilf Csaplar Jr.   Economics 162   Homework #4   **Due Friday 9/29**

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) (15 points) Use the table to the right to calculate the person's marginal tax rate, total taxes paid, and average tax rate if they earn $50,000. Show all work. If there is no work, explain how you got your answer.

2) (25 points) Draw a supply and demand diagram with a flat demand curve and a steep supply curve. Illustrate the effects of a tax on the item. Explain why the curve(s) moved as drawn. Who pays most of the tax? Explain how you reached that conclusion.

Bracket	Rate
$0 - $20,000	10%
$20,000 - $40,000	15%
$40,000 - $60,000	20%
$60,000 - $100,000	25%
>$100,000	30%

3) (15 points) What is the economic reasoning that an increase in a tax could result in a reduction in tax revenue? Explain it in general and then give a specific numerical example which proves your point.

4) Answer each of the parts in separate paragraphs. Assume we will act to save Social Security.
4A) (5 points) What is the big problem with Social Security? What are the two long-term trends that mean the problem will get worse for the next two decades at least?
4B) (20 points) One proposal to reduce the problem with Social Security is to increase the tax rate. How would that reduce the problem? Would you include that as part of your package to save Social Security? Explain your reasoning.
4C) (20 points) One proposal to reduce the problem with Social Security is to remove the Social Security cap. How would that reduce the problem? Would you include that as part of your package to save Social Security? Explain your reasoning.