

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) (15 points) Explain why the most efficient tax is the head tax. You pay a fixed amount for having a head. Why did the only politician that I am aware of promoting such a tax - Margaret Thatcher - get voted out of office for promoting it?
- 2) (20 points) Taxing causes two types of inefficiencies. What are they and how does having a tax cause them?
- 3) (20 points) Why don't developing countries rely heavily on an income tax? Explain two reasons for this.
- 4) (15 points) Raising a tax rate may bring in less revenue. Use a numerical example to explain the cause of this.
- 5) (20 points) When we tax a firm with an excise tax, who really pays the tax? Explain your logic naming two groups of people.
- 6) (10 points) Using the terms *current expenditures* and *recurrent expenditures*, explain why it will be tough to cut the US government's spending.