

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) (25 points) Draw the supply and demand for electricity from coal. What externality is caused by that? Prove that we do not get the socially optimal volume of electricity from coal. What do economists say is the best solution for that? Explain how it will solve the problem.

2) (15 points each) For each of the following, explain why it is an economic reason to have a government.

A) Public goods.

B) Income redistribution.

3) (20 points) Draw the Laffer Curve we drew in class. (The book does it in a later chapter.) Explain why it takes its shape.

4) (15 points) Suppose that if your income is in the range of \$0 - \$20,000.00, then your tax bracket is 10%. If your income is between \$20,000.00 and \$50,000.00 then your tax bracket is 20%. If your income is between \$50,000.00 and \$90,000.00 then your tax bracket is 30%. If your income is between \$90,000.00 and \$150,000.00 then your tax bracket is 40%. If your income is over \$150,000.00 then your tax bracket is 50%. Find the total taxes paid, the average tax rate and the marginal tax rate. Show all calculations and briefly explain what you did.

5) (10 points) Why do I say that most sales taxes are regressive?