Wilf Csaplar Jr.   Economics 162   Homework #3   **Due Friday 2/17**

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) (20 points) Draw the supply and demand for a product like gasoline which causes a negative externality. Prove the market will not produce the correct amount of gasoline. What do economists say should be done about it? Illustrate that on the graph and prove it results in the desired level of production.

2) (10 points each) For each part, explain why it is an economic reason for a government. (The book says that one of them is a non-economic reason for a government, but I say it is an economic reason.)
A) promote competition
B) income inequality

3) (10 points) Some people feel that public health programs like Medicaid are good because of positive externalities. Explain the logic.

4) (15 points) Use the table to the right to determine the marginal tax rate, total taxes paid, and average tax rate for a person earning $50,000. Show all work. If there is no work, then briefly explain what you did.

5) (15 points) Explain why raising a tax rate could end up with less tax revenue. Use a numerical example to prove your point.

Bracket	Rate
$0 - $20,000	15%
$20,000-$40,000	25%
$40,000-$90,000	35%
>$90,000	40%

6) (20 points) Draw a supply and demand diagram which has a fairly steep supply curve and a fairly flat demand curve. Illustrate the effects of an excise tax on that good. Explain why the curve(s) moved as drawn. Who pays most of the tax? Explain your logic.