

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) (15 points) Using the table to the right, find the marginal tax rate, total taxes paid, and average tax rate for a person earning \$100,000. Show all work and briefly explain what you did.

Tax Bracket	Tax Rate
\$0 - \$30,000	20%
\$30,000 - \$70,000	30%
\$70,000 - \$120,000	40%
>\$120,000	50%

2) (25 points) Draw the supply and demand for apples with a relatively steep supply curve and a relatively flat demand curve. Illustrate the effects of a tax on apples. Explain why the curve(s) moved as drawn. Given your diagram, how much of the tax is paid by the consumers and how much is paid by the producers? Explain how you reached your conclusion.

3A) (5 points) What is the long-term problem with Social Security? What are the two main causes of the problem?

3B) (20 points) One possible solution to the problem is to raise the retirement age. Explain how this will reduce the problem. Would you use the method (either with or without other solutions) to reduce the problem? Explain your logic.

3C) (20 points) One possible solution to the problem is to eliminate the cap on taxable income. Explain how this will reduce the problem. Would you use the method (either with or without other solutions) to reduce the problem? Explain your logic.

4) (15 points) Explain the economic reason that increasing a tax could result in less tax revenue. Give a numerical example which shows your point.