

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 for bananas. Assume the demand curve is relatively flat and the supply curve is relatively steep. Show the effects of a tax on bananas. Explain why the curve(s) moved as drawn. Show the new price the consumer pays and the new price the producer receives after the taxes are paid. Who pays most of the tax?

2) Answer each part in separate paragraphs. Assume that we are not scrapping Social Security.

2A) (10 points) What is the long-term problem Social Security is facing? What are the two long-term trends which are contributing to it?

2B) (15 points) One proposed solution to the problem in Part A is to increase the retirement age. How would that reduce the problem? Would you do that as part of a big plan to fix Social Security? Explain your logic.

2C) (15 points) One proposed solution to the problem in Part A is to eliminate that cap on taxable income. How would that reduce the problem? Would you do that as part of a big plan to fix Social Security? Explain your logic.

3) (10 points) What is the economic reason that increasing a tax could result in less tax revenue?

4) (10 points each) Answer each question in a separate paragraph. For each of the following, determine what happens to the unemployment rate and the labor force participation rate. Briefly explain your logic. Which type of unemployment is affected? Briefly explain your logic. If you make an assumption, state what you assumed.

A) John has been out of work for so long, he quits looking for a job.

B) A lifeguard in this area now who does not have a job.

C) A West Liberty senior graduates without a job.