Wilf Csaplar Jr.   Economics 162   Homework #4   **Due Thursday 3/2**

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 10 points. 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) Suppose the income tax brackets where the actual tax brackets. What are the marginal tax rate, total taxes paid, and average tax rate for a person with an income of $50,000? Show all work. If there is no work, then explain how you got the answer.

2) (20 points) What is the economic reason why increasing a tax rate could result in less tax revenue? Use a numerical example in your explanation.

Bracket	Rate
$0 - $20,000	15%
$20,000 - $40,000	20%
$40,000 - $90,000	30%
> $90,000	40%

3) Answer the three parts in separate paragraphs. For Parts B & C, assume we want to save Social Security.
A) (10 points) What is the long-term problem facing Social Security? What are the two long-term trends which mean the problem will get worse for the next decade? State how they will make the problem worse.
B) (20 points) One proposal to reduce the problem with Social Security is to eliminate the cap on taxable income. How would that reduce the problem? Should this be part of a package to save Social Security? Explain your logic.
C) (20 points) One proposal to reduce the problem with Social Security is to reduce the Social Security benefits. How would that reduce the problem? Should this be part of a package to save Social Security? Explain your logic.

4) (10 points) I said that most sales taxes are regressive. Explain why I feel that.