Wilf Csaplar Jr.   Economics 162   Homework #4   **Due Thursday 2/13**

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) (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 $200,000. Show all work. If there is no work, state how you got the answer. (Don't you wish that was your income?)

2) (15 points) Explain why in general, increasing the tax rate could cause a decrease in tax revenue. Make sure your explanation applies to any tax. Give a numerical example of an excise tax where increasing the tax rate caused the tax revenue to decrease.

Tax Bracket	Tax Rate
$0 - $30,000	20%
$30,000 - $50,000	25%
$50,000 - $100,000	30%
$100,000 - $250,000	40%
> $250,000	50%

3) (20 points) Draw a supply/demand diagram for apples. Draw it so the demand curve is relatively flat and the supply curve is relatively steep. Draw a tax on apples. Explain why the curve(s) moved as drawn. <u>As drawn</u>, who pays most of the tax? Explain how you reached your conclusion.

4) Answer each part in separate paragraphs.
A) (10 points) What is the long-term problem facing Social Security? What long-term trends mean the problem will be getting worse for quite a while more?
B) (20 points) One way to reduce the problem is to increase the retirement age. How would that reduce the problem? If you were President of the USA, would you use this as part of your plan to save Social Security? Explain your logic.
C) (20 points) One way to reduce the problem is to eliminate the cap on earned income. How would that reduce the problem? If you were President of the USA, would you use this as part of your plan to save Social Security? Explain your logic.