

**The Last One!**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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) Explain how a tax on pollution can have the same impact on pollution as the marketable permits. However, there are two major differences, one on the government and one in the long-term. What are these differences and how do they occur?

2) (15 points each) Governor Jim Justice of West Virginia, has proposed cutting (and eventually eliminating) the state income tax. He would replace the missing funds by adjusting other taxes. The biggest changes are to increase the sales tax and the excise taxes on alcohol and tobacco. We have several criteria for determining if a tax is a good tax. For each one, does his proposal make sense? Explain your logic. Answer each part in separate paragraphs.

A) Size of the distortions caused by the tax.

B) Cost of administering.

3) (25 points) What is the difference between *government capital investment* and *recurring government expenditures*? Which is harder to cut? Why is it harder to cut? Which is the biggest part of the budget of the USA? Briefly explain why you made that choice.

4) (25 points) Draw a supply/demand diagram for a good with a relatively steep supply curve and a relatively flat demand curve. Illustrate the effects of taxing that item. Explain why the curve(s) moved as drawn. Who pays most of the tax? Explain how your graph shows that.