

Sample Exam Questions/Chapter 7

1. Which of the following best describes a regressive tax?
 - A) A tax that takes a higher percentage of income as income rises.
 - B) A tax whose rate rises less than in proportion to income.
 - C) A tax that takes a fixed percentage of income regardless of the taxpayer's level of income.
 - D) A tax that takes a larger share of the income of high-income taxpayers than of low-income taxpayers.

2. U.S. federal taxes are generally _____, while state and local taxes are generally _____.
 - A) progressive; progressive
 - B) progressive; regressive
 - C) regressive; progressive
 - D) regressive; regressive

3. A principle suggesting that people with more income or wealth should pay more taxes is the:
 - A) ability-to-pay principle.
 - B) regressive tax principle.
 - C) progressive tax principle.
 - D) benefits principle.

4. A tax that takes a _____ percentage of income as income _____ is a _____ tax.
 - A) lower; rises; progressive
 - B) lower; rises; regressive
 - C) higher; rises; proportional
 - D) higher; falls; proportional

5. The _____ tax rate on income represents the additional tax an individual pays if his or her income goes up by \$1. This rate has _____ since 2000.
 - A) average; increased
 - B) marginal; decreased
 - C) marginal; increased
 - D) average; decreased

6. If the government follows an income tax system in which personal income up to and including \$25,000 is not taxed, income of \$25,001 to \$50,000 is taxed at 10%, and income over \$50,000 is taxed at 25%, a family earning income equal to \$60,000 will pay a marginal tax rate of _____ and an average tax rate of _____.
- A) 12.5%; 25%
 - B) 10%; 15%
 - C) 25%; 8.3%
 - D) 25%; 25%

Answer Key

1. B
2. B
3. A
4. B
5. B
6. C