Sample Exam Questions/Chapter 7

1. A tax of $20 on an income of $200, $40 on an income of $300, and $80 on an income of $400 is:
   A) progressive.
   B) proportional.
   C) regressive.
   D) constant-rate.

2. A tax of $15 on an income of $200, $10 on an income of $300, and $8 on an income of $400 is:
   A) constant-rate.
   B) proportional.
   C) progressive.
   D) regressive.

Use the following to answer question 3:

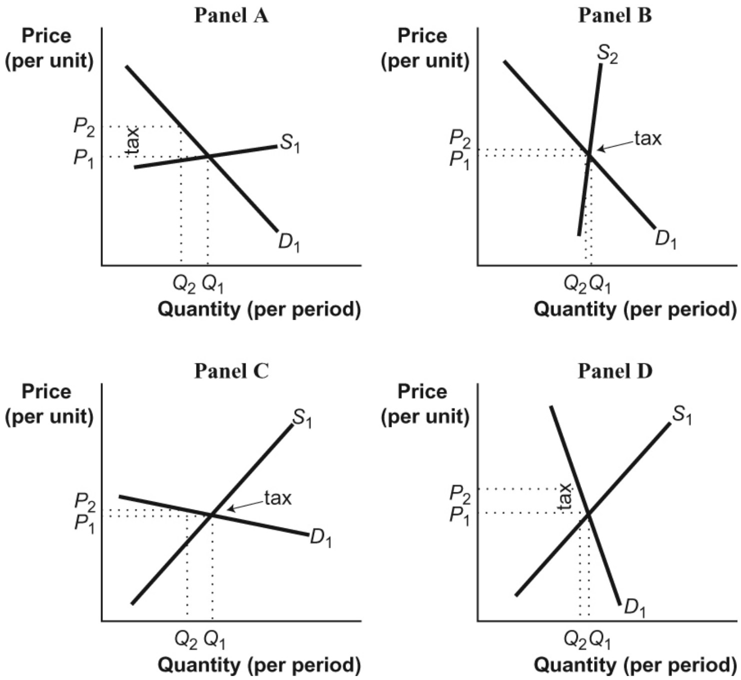
Table: Three Tax Structure Proposals

Pre-Tax Income	Proposal 1: After-Tax Income	Proposal 2: After-Tax Income	Proposal 3: After-Tax Income
$ 20,000	$16,000	$18,000	$16,000
$ 40,000	$32,000	$34,000	$34,000
$ 60,000	$48,000	$45,000	$54,000
$ 80,000	$64,000	$56,000	$76,000
$100,000	$80,000	$65,000	$98,000

3. (Table: Three Tax Structure Proposals) Look at the table Three Tax Structure Proposals. If one wished to use a proportional or flat tax structure, one should use proposal _____, in which the percentage of income taxed is _____.
   A) 1; 20%
   B) 2; 10%
   C) 3; 20%
   D) 2; 20%

Use the following to answer question 4:

Figure: Tax Incidence

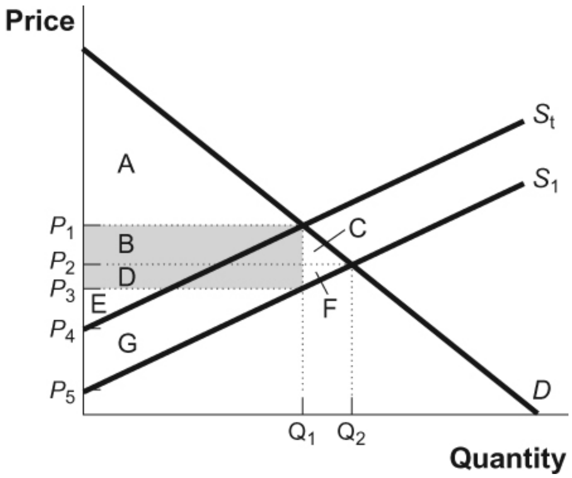


4. (Figure: Tax Incidence) Look at the figure Tax Incidence. All other things unchanged, the effect of an excise tax on gasoline in the long run is most likely illustrated by panel _____, and the greater share of the burden of the excise tax (shown by the tax wedge in each panel) is borne by _____.
   A) A; buyers
   B) B; sellers
   C) B; buyers
   D) A; sellers

5. Determining who actually pays the cost imposed by a tax is the study of:
   A) public interest theory.
   B) rational choice theory.
   C) tax incidence.
   D) budget analysis.

Use the following to answer question 6:

Figure: A Market with a Tax



6. (Figure: A Market with a Tax) Look at the figure A Market with a Tax. The efficiency loss resulting from this tax is:
   A) $(P_1 – P_3)Q_2$.
   B) $(P_1 – P_2)Q_1$
   C) $0.5(P_1 – P_3)(Q_2 – Q_1)$.
   D) $0.5(P_1 – P_3)Q_1$.

7. The percentage of an increase in income that is taxed is:
   A) the marginal rate.
   B) a regressive tax.
   C) a flat tax.
   D) after tax.

8. Sales taxes are considered to be:
   A) proportional.
   B) progressive.
   C) degressive.
   D) regressive.

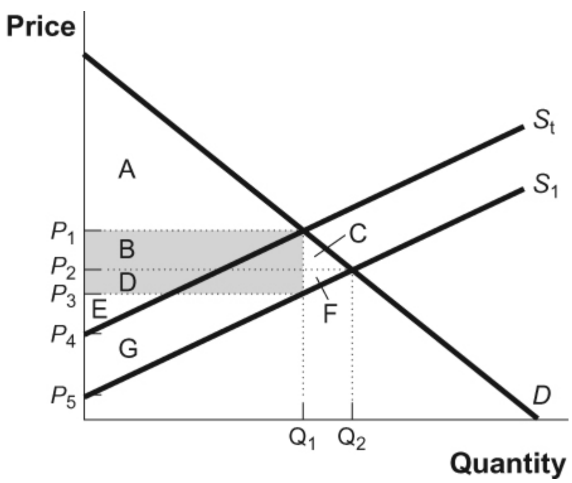
9. The burden of a tax on a good falls at least partially on consumers if:
   A) the price paid by consumers for the good declines.
   B) the price paid by consumers for the good increases.
   C) the wages received by workers who produce the good decline.
   D) the wages received by workers who produce the good increase.

10. If the demand curve is downward-sloping and supply is perfectly elastic, then the burden of an excise tax is:
    A) borne entirely by consumers.
    B) borne entirely by producers.
    C) shared by consumers and producers, with the burden falling mainly on consumers.
    D) shared by consumers and producers, with the burden falling mainly on producers.

11. Suppose the government imposes a $9 per month tax on cell phone service. If the demand curve for cell phone service is perfectly elastic and the supply curve is upward-sloping, the monthly price for cell phone service will:
    A) increase by $4.50.
    B) increase by more than $9.
    C) increase by $9.
    D) not change.

Use the following to answer question 12:

Figure: A Market with a Tax



12. (Figure: A Market with a Tax) Look at the figure A Market with a Tax. Before the tax, producer surplus is equal to the areas:
    A) A + B + C + D.
    B) D + E + F + G.
    C) A + B + C + D + E + F.
    D) A + B + C.

13. Given any upward-sloping supply curve for a good, the more inelastic the demand curve, the _____ equilibrium output will fall and the _____ will be the deadweight loss when the government imposes an excise tax.
    A) more; smaller
    B) more; larger
    C) less; smaller
    D) less; larger

14. If the elasticity of demand is _____ and the elasticity of supply is _____, tax revenue is likely to decrease.
    A) 3.3; 2.1
    B) 3.3; 0.5
    C) 0.2; 2.1
    D) 0.2; 0.5

15. An analysis of the effect of excise taxes on markets allows us to conclude that:
    A) when the price elasticity of supply is equal to zero, an excise tax falls entirely on the consumers.
    B) when the price elasticity of demand is lower than the price elasticity of supply, an excise tax falls mainly on the producers.
    C) whether the tax is levied on consumers or producers, the quantity sold will be the same.
    D) when the price elasticity of demand is higher than the price elasticity of supply, an excise tax falls mainly on the consumers.

16. The deadweight loss from an excise tax comes about because:
    A) the number of transactions in the market is smaller than the no-tax equilibrium.
    B) some mutually beneficial transactions do not take place.
    C) a quota rent exists.
    D) the number of transactions in the market is reduced and some mutually beneficial transactions do not take place.

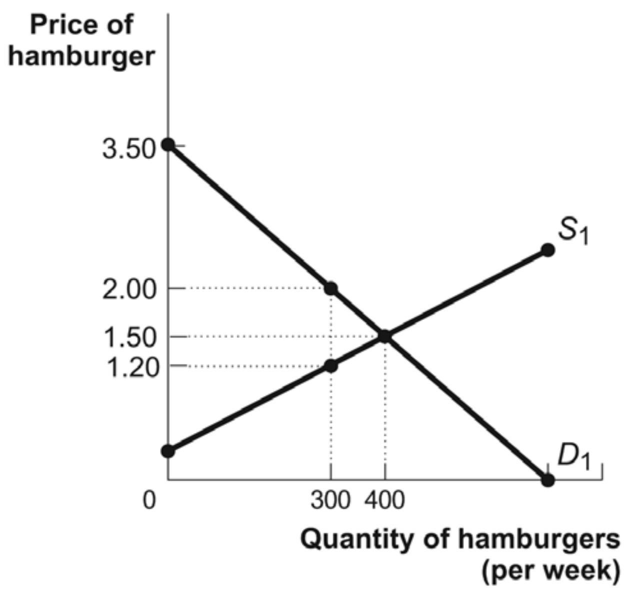
17. Suppose Governor Meridias initiates a payroll tax of 10% on all income up to $50,000. Any income above $50,000 is not taxed. This payroll tax will be:
    A) progressive.
    B) proportional.
    C) regressive.
    D) structural.

18. FICA taxes are considered to be:
    A) proportional.
    B) progressive.
    C) flat.
    D) regressive.

19. When the imposition of an excise tax causes the quantity demanded and quantity supplied to decrease relative to the no-tax equilibrium, this will result in:
    A) deadweight loss.
    B) increases in producer surplus.
    C) increases in consumer surplus.
    D) increases in both consumer and producer surplus.

Use the following to answer question 20:

Figure: The Market for Hamburgers



20. (Figure: The Market for Hamburgers) Look at the figure The Market for Hamburgers. If the market is originally in equilibrium and the government imposes an excise tax of $0.80 per unit of the good sold, the government's revenue from the tax will be:
    A) $175.
    B) $240.
    C) $105.
    D) $90.

21. A tax is progressive if the tax payment is:
    A) a fixed percentage of income.
    B) a lower percentage of income as income rises.
    C) a higher percentage of income as income rises.
    D) a higher percentage of income as income falls.

Answer Key

1. A
2. D
3. A
4. A
5. C
6. C
7. A
8. D
9. B
10. A
11. D
12. B
13. C
14. A
15. C
16. D
17. C
18. D
19. A
20. B
21. C