Sample Exam Questions/Chapter 7

1. The burden of a tax that is imposed on a good is said to fall completely on the consumers if the:
   A) price paid by consumers for the good declines by the amount of the tax.
   B) price paid by consumers for the good increases by the amount of the tax.
   C) price paid by consumers does not change.
   D) wages received by workers who produce the good increase by the amount of the tax.

2. 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.

3. 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

4. Given any upward-sloping supply curve for a good, the more elastic 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

5. If an excise tax is levied on suppliers, then the incidence of the tax:
   A) is typically on the consumer more than the producer.
   B) is typically on the producer more than the consumer.
   C) is typically split equally between the producer and the consumer.
   D) cannot be determined without more information.
6. A tax:
   A) generates tax revenue and creates deadweight loss.
   B) increases consumer and producer surplus.
   C) produces revenue for the government and increases total surplus.
   D) is always efficient.

7. 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.

Use the following to answer question 8:

**Figure: The Market for Yachts**

8. (Figure: The Market for Yachts) Look at the figure The Market for Yachts. If the
government imposes a $30,000 tax on yachts (collected from the producers), consumers
will pay ______ of the tax and producers will pay ______.
   A) $20,000; $10,000
   B) $15,000; $15,000
   C) $10,000; $20,000
   D) $5,000; $25,000
9. (Figure: The Gasoline Market) Look at the figure The Gasoline Market. An excise tax has been levied on each gallon of gasoline supplied by producers, shifting the supply curve upward. What is the tax rate?

A) $1.75 per gallon
B) $1 per gallon
C) $2.50
D) $0.50
Use the following to answer question 10:

**Figure: The Market for Lattes**

10. (Figure: The Market for Lattes) Look at the figure The Market for Lattes. If the government assesses a tax of $0.75 on each latte, the price the consumer pays for a latte after the tax will:
   A) increase from $2 to $2.75.
   B) increase from $2 to $2.50.
   C) increase from $2 to $2.25.
   D) change, but we cannot determine by how much.

11. As part of an antiobesity program, the government levies an excise tax on high-fat foods. We would expect consumers to pay almost all of this tax if demand is:
   A) inelastic and supply is inelastic.
   B) inelastic and supply is elastic.
   C) elastic and supply is elastic.
   D) elastic and supply is inelastic.

12. 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
13. (Figure: The Market for Yachts) Look at the figure The Market for Yachts. If the government imposes a $30,000 tax on yachts and collects it from the yacht suppliers, the ________ curve will shift ________ by ________.
A) demand; downward; $15,000
B) supply; upward; $15,000
C) supply; upward; $30,000
D) demand; downward; $30,000
14. (Figure: The Shrimp Market) Look at the figure The Shrimp Market. If the government wants to limit shrimp sales to 500 pounds, it can impose a ______ excise tax on sellers, and the total tax revenue generated will be ______.
A) $5; $2,500
B) $7.50; $7,500
C) $10; $2,500
D) The answer cannot be determined from the information provided.

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

16. A tax leads to ______ in consumer surplus and ______ in producer surplus.
A) an increase; an increase
B) an increase; a decrease
C) a decrease; an increase
D) a decrease; a decrease
17. An excise tax that the government collects from the producers of a good:
   A) shifts the supply curve upward.
   B) causes a loss of revenue for the government.
   C) has a similar effect as a tax subsidy.
   D) shifts the supply curve downward.

Use the following to answer question 18:

**Figure: The Market for Blue Jeans**

18. (Figure: The Market for Blue Jeans) Look at the figure The Market for Blue Jeans. The government recently levied a $10 tax on the producers of blue jeans. What area or areas in the graph identify deadweight loss?
   A) a + b + c
   B) b + d
   C) c + e
   D) d + e + f

19. 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
20. 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%

21. Suppose the price elasticity of demand for yachts equals 4.04, while the price elasticity of supply for yachts equals 0.22. If Congress reinstates a luxury tax on yachts, who will pay more of the tax?
A) Yacht builders will pay more.
B) Yacht buyers will pay more.
C) Yacht builders and buyers will pay equally.
D) It's impossible to tell without additional information.
Answer Key

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