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