Sample Exam Questions/Chapter 7

1. If 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 20%, then a family earning an income of $75,000 will pay a marginal tax rate of:
   A) 5%.
   B) 7.5%.
   C) 10%.
   D) 20%.

Use the following to answer question 2:

**Figure: The Market for Hamburgers**

2. (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 hamburger, producer surplus will be reduced by:
   A) $175.
   B) $240.
   C) $105.
   D) $90.
3. A tax that takes a larger share of the income of high-income taxpayers than of low-income taxpayers is called a:
   A) sales tax.
   B) regressive tax.
   C) progressive tax.
   D) flat tax.

Use the following to answer question 4:

**Figure: The Gasoline Market**

4. (Figure: The Gasoline Market) Look at the figure The Gasoline Market. An excise tax has been levied on each gallon of gasoline, shifting the supply curve upward. The deadweight loss from this tax is equal to:
   A) $1.50.
   B) $5,000.
   C) $15,000.
   D) $4,375.
Use the following to answer question 5:

**Figure: The Market for Lattes**

5. (Figure: The Market for Lattes) If an excise tax of $1.50 is assessed on each latte, government revenue will be:
   A) $400
   B) $600
   C) $800
   D) $1,200
6. (Figure: Tax Incidence) Look at the figure Tax Incidence. All other things unchanged, when a good or service is characterized by a relatively inelastic supply, as shown in panel _______, a greater share of the burden of an excise tax is borne by ________.
A) A; buyers  
B) B; sellers  
C) A; sellers  
D) B; buyers

7. Paying a tax of $15 on an income of $200, a tax of $10 on an income of $300, and a tax of $8 on an income of $400 is an example of a:
A) constant-rate tax.  
B) proportional tax.  
C) progressive tax.  
D) regressive tax.
8. Tax incidence analysis seeks to determine:
   A) who actually sends the tax payment to the government.
   B) who actually pays the extra cost imposed by a tax.
   C) who ultimately gets the tax revenue.
   D) whether a tax is in the benefits-received category or the ability-to-pay category.

9. Producers in a particular market will bear the greater burden of an excise tax:
   A) the more price-elastic the demand is relative to supply.
   B) the less price-elastic demand is relative to supply.
   C) if demand has the same price elasticity as supply.
   D) regardless of the price elasticity of demand or supply.

10. The amount of tax levied per unit of good or service is called the:
    A) tax incidence.
    B) tax rate.
    C) tax revenue.
    D) tax surplus.

11. The elasticity of demand for Gala apples is relatively elastic, so if a tax is levied on the consumers of Gala apples, the tax incidence:
    A) is typically on consumers more than producers.
    B) is typically on producers more than consumers.
    C) is typically split equally between consumers and producers.
    D) cannot be determined without more information.

12. According to the ________, those with greater ability to pay a tax should pay proportionally more tax.
    A) ability-to-pay principle
    B) tax fairness principle
    C) benefits principle
    D) affordability principle

13. The deadweight loss from an excise tax is largest if demand:
    A) is elastic and supply is inelastic.
    B) is inelastic and supply is elastic.
    C) and supply are both inelastic.
    D) and supply are both elastic.
14. Prior to any taxes, the equilibrium price of gasoline is $3 per gallon. Then a $1 tax is levied on each gallon of gas. As a result, the price of gasoline rises to $3.75 per gallon. The incidence of the $1 tax is:
   A) $0.25 paid by consumers, $0.75 paid by producers.
   B) $0.50 paid by consumers, $0.50 paid by producers.
   C) $1.00 paid by producers, $0 paid by consumers.
   D) $0.75 paid by consumers, $0.25 paid by producers.

15. 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 $60,000 of income will pay _______ in personal taxes.
   A) $5,000
   B) $8,000
   C) $11,250
   D) $16,000

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

17. Determining who pays the burden of the tax is a question about:
   A) tax incidence.
   B) externality analysis.
   C) public interest theory.
   D) public choice theory.

18. To minimize deadweight loss, markets where demand is relatively _______ and supply is relatively _______ should be taxed.
   A) elastic; inelastic
   B) elastic; elastic
   C) inelastic; elastic
   D) inelastic; inelastic
19. (Figure: Tax Incidence) Look at the figure Tax Incidence. Consumers are likely to bear more of the burden of an excise tax in the situations illustrated by panels:

A) A and B.
B) A and D.
C) B and D.
D) B and C.
20. (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 consumer and producer surplus after the tax was levied?

A) $a + b + c$
B) $a + b + c + d + e + f$
C) $d + e + f$
D) $a + f$
Answer Key

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