Pdf Report for Pset3

Full Name:

Reference 1: Tax Incidence

The demand for rutabagas is $Q = 2,000 - 300P$ and the supply of rutabagas is $Q = -100 + 100P$.

1. Given the above information, a) Who bears the statutory incidence of a $2 per unit tax on the sale of rutabagas? Why?

Answer: If the tax is on the sale of rutabagas, the buyer bears the statutory incidence, since the "sticker price" of rutabagas does not include the tax.
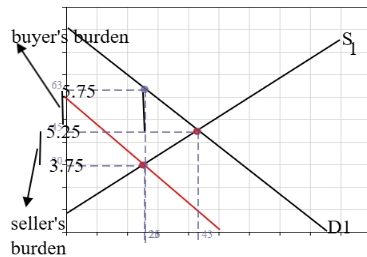
Reference 1: Tax Incidence

The demand for rutabagas is $Q = 2,000 - 300P$ and the supply of rutabagas is $Q = -100 + 100P$.

2. Given the above information, b) Who bears the economic incidence of this tax? Show the calculations

Answer: If you solve simultaneously, the initial price P1= $5.25. With a tax of $2, the new equilibrium price given by solving 2,000-300(P+2) =100P-100 which implies a new price of P2= $3.75. This is what sellers receive in new price which means that a net receipt per unit decline of $1.50, a tax burden on sells; the other $2-1.50= $0.50 is the tax burden on buyers.

3. c) sketch the graph showing the sharing of the tax burden in the previous question (ignore the numbers or scale of the axes)

Answer:

Reference 1: Tax Incidence

Suppose that in the country of Tributia a worker's supply of labor is given by $H = 140W$, and a firm's demand for labor by $H = 2000 - 20W$, where W is wage per hour, and H is quantity of hours worked.

Suppose that the government of Tributia decides to impose a proportional income tax of 25% on all of the worker's earnings.

4. Write down the numerical value of the deadweight loss and show your calculations.

Answer: - Without the tax, equilibrium will be found where 140W = 2000 - 20W ==> W1 = $12.5 and H1 = 1,750. - With the tax, the effective wage to the worker will be 0.75W. So, the equilibrium with the proportional tax will be 140 × 0.75W = 2000 - 20W ==> W2 = $16 and H2 = 1,680. The wage the worker receives after tax is $12. - The area of the deadweight loss triangle is .5 × (1,750 - 1,680) × ($16 - $12) = $140.

Reference 1: DWL of taxation

Suppose that in the country of Tributia a worker's supply of labor is given by $H = 140W$, and a firm's demand for labor by $H = 2000 - 20W$, where W is wage per hour, and H is quantity of hours worked.
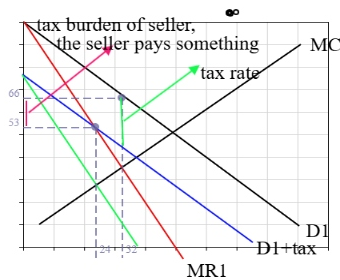
Suppose that the government of Tributia decides to impose a proportional income tax of 25% on all of the worker's earnings.

5. Briefly state why taxes create deadweight losses in this context.

Answer: Because the create a wedge between the maximum the firm want to pay and minimum the worker is willing to receive, which reduces the total hours worked

6. Show graphically, why a monopolist cannot fully transfer tax burden of a sales tax even though it is a price maker. Do the graphing here and you will give your explanation in the next question

Answer:

7. Give economics way of thinking to explain why a monopolist cannot fully transfer tax burden of a sales tax eventhough it is a price maker.

Answer: The fact that the MC is not horizontal means that the price the sellers receives decreases, which means that sellers pays part of the tax. if there was not decrease in price, then buyer fully bears the burden.

8. What does the term 'tax incidence' refer to?

A. The amount of tax paid by the government

B. The division of the tax burden between consumers and producers

C. The total tax revenue collected by the government

D. The rate at which taxes increase over time

 Answer: B. The division of the tax burden between consumers and producers

9. When the supply curve is perfectly elastic, who is most likely to bear the burden of the tax?

A. The government

B. The producer

C. The consumer

D. Both share the burden equally

Answer: C. The consumer

10. When the demand for a good is more elastic than the supply, who is more likely to bear the tax burden?

A. The consumers

B. The producers

C. Both share the burden equally

D. The government

Answer: B. The producers

11. If a tax is imposed on a good with price elasticity of demand of .5 and price elasticity of supply of .25, what percent of the tax will be born by the consumers?

A. 100%.

B. 25%.

C. 50%.

D. 67%.

Answer:

12. From efficiency ground, which good must be taxed heavily?

A. private jets.

B. alcohol.

C. bread.

D. jeans.

Answer: C. bread.