

Problem Set III: Taxes and Tariffs
Econ 151 Sections 18 and 19

Part I:

1. If demand is highly inelastic and taxes are increased, who carries most of the tax burden?
 - (a) consumers
 - (b) suppliers
 - (c) the government
 - (d) the market

2. An excise tax on food will cause which of the following:
 - (a) it will make suppliers better off
 - (b) it will make consumers better off
 - (c) it will decrease government revenues
 - (d) it will lower the quantity demanded for food

3. The idea of allocative efficiency is concerned with:
 - (a) producing the combination of goods most desired by society
 - (b) achieving the full employment of all available resources
 - (c) producing every good with the least-cost combination of inputs.
 - (d) reducing the concavity (bowed-outness) of the production possibilities curve.

4. A regressive tax code does which of the following:
 - (a) increases marginal tax rates as income increases
 - (b) increases average tax rates as income increases
 - (c) decreases marginal tax rates as income increases
 - (d) forces the rich to pay proportionally higher taxes than it forces the poor

Part 2:

1. Draw a supply and demand diagram for the US yacht market. Assume that supply is normal (i.e. neither really inelastic nor really elastic). Equilibrium price is \$300,000 and equilibrium quantity is 400 yachts per year. Answer the following questions:
 - (a) Is demand relatively elastic or inelastic (make sure your demand curve is drawn correctly)? Why?
 - (b) Show, on the graph, the effects of a \$50,000 yacht tax. Who pays a higher tax burden: working-class yachtmakers or ultra-rich yacht buyers? Why?