

ARE 201
Fall 2009
Test 3

Name _____ **KEY** _____

Complete the sentence or give the answer to the problem.

1. For a "flat" or proportional tax, the average tax rate is the same for all taxpayers.
2. For a progressive tax, the average tax rate rises as taxable income increases.
3. For a regressive tax, the average tax rate falls as taxable income increases.
4. If Sean has a tax deduction of \$10,000 and his gross income is \$90,000, then Sean's taxable income is \$80,000.
5. Gross income minus personal exemptions and minus deductions equals taxable income.

Use the following information to answer questions 6 to 9.

Sean's gross income is \$50,000, and he files taxes as a single person. He uses a personal exemption of \$3300 and has deductions of \$5150. The following tax brackets are applicable to him:

<u>Taxable income range</u>	<u>Tax rate</u>
\$0 to \$7550	0.10
\$7551 to \$30,650	0.15
\$30,651 to \$74,200	0.25

6. Sean's taxable income is: \$41,550
7. The total tax that Sean pays is: \$6945
8. Sean's average tax rate is: 0.1389 or 13.89%
9. Sean's marginal tax rate is: 0.25 or 25%
10. Private goods are products and services that, once the individual consumes them, their consumption (or use) is *not* available to others.
11. In contrast, public goods are products and services that, once available, are available for everyone to consume or use in the same amount.
- 12 & 13. The economic solution to pollution, which is a negative externality, is to tax the polluter and use the revenues to correct the harm caused by the pollution.

- 14 & 15. The economic solution to higher education, which is considered a **positive** externality, is to subsidize college students from general tax revenues.
16. Someone who waits for others to provide a public good, and who therefore escapes payment for the public good, is called a **free rider**.
- 17 and 18. One modern approach to addressing pollution is to cap the total amount of pollutants and then sell pollution permits, where their aggregate amount equals to total allowable amount of pollution.
19. The function of government focused on regulating monopolies and preventing collusive oligopolies is called anti-trust.
20. One justification for government to regulate business actions is that often businesses have much more information than consumers possess about the products.
21. A usual way that restrictions on choice are implemented is by placing age limits on the purchase of regulated products and services.
22. A possible cost of business regulation is the benefits that could have resulted if a forbidden transaction had taken place.
23. While public goods should be publicly funded, provision of the public good can be done by either the government or by private companies.
24. One concern of income redistribution, where monies are taxed from some households and provided to other households, is that such programs may reduce the incentive of both taxed households and recipient households to work.
25. In kind income redistribution programs are those which provide resources to recipient households with “strings attached” that is, with conditions on how the resources are used.