Econ 131
Spring 2017
Additional Practice [optional]

Tax Incidence

1. Gruber 19.14

In which case will workers bear a larger share of the tax burden, when taxes are imposed in a single locality or when taxes are imposed throughout an entire state? Why will your answer differ between the short run and the long run?

2. Gruber 19.6

To finance a new health insurance program, the government of Viedma imposes a new $2 per hour payroll tax to be paid by employers.

a. What do you expect to happen to wages and the size of the workforce?

b. How will this answer change in markets where labor is inelastically demanded?

3. Gruber 19.4

The demand for football tickets is $Q = 360 - 10P$ and the supply of football tickets is $Q = 20P$. Calculate the gross price paid by consumers after a per-ticket tax of $4. Calculate the after-tax price received by ticket sellers.

Labor Income Taxation

1. Gruber 21.8 (EITC)

Suppose that the government introduces an Earned Income Tax Credit such that for the first \$8,000 in earnings, the government pays 50c per dollar on wages earned. For the next \$3,000 of earnings, the credit is held constant at \$4,000, and after that point the credit is reduced at a rate of 20c per dollar earned. When the credit reaches zero, there is no additional EITC.

a. Draw the budget constraint that reflects this earned income tax credit for a worker who can work up to 4,000 hours per year at an hourly wage of \$10 per hour.

b. Illustrate on your graph the portions of the budget constraint where the labor supply effects of the policy are positive, negative, or ambiguous, relative to the "no policy" status quo.