AS/ECON 4070 3.0AF   Midterm Exam   Wednesday October 29 2003

time = 50 minutes

Do **all 3** questions. All questions count equally.

1. What would be the incidence of a tax on the use of labour in the food industry, if the food industry were less labour intensive than other industries, and if the technology of food production involved fixed coefficients?

2. What would be the excess burden of a 50 percent tax on clothing consumption if the net–of–tax price of clothing were $p_Y = 20$, the net–of–tax price of food were $p_X = 1$, and the person's compensated demand function for clothing had the equation

$$Y = 3600(\frac{P_X}{P_Y})^2$$

where Y is the quantity demanded of clothing, P_X the price paid by consumers for food, and P_Y the price paid by consumers for clothing?

3. If a country levied a proportional sales tax on all goods and services consumed by its residents, then putting in a small tax on their wage income would actually reduce the excess burden of the tax system. True, false or uncertain? Explain briefly.

end