

AS/ECON 4070 3.0AF Midterm Exam Friday October 28 2005

time = 50 minutes

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

1. "The fewer firms that there are in an industry, the more an excise tax will be shifted forward onto consumers". True, false or uncertain? Explain briefly.

2. Discuss as precisely as possible the incidence of a tax on the use of labour in the manufacturing industry if the manufacturing industry is relatively capital intensive, and at the same time it is very easy to substitute labour for capital in other industries (other than manufacturing).

3. If a person's preferences could be represented by the utility function

$$u(X, Y) = X + 24\sqrt{Y}$$

(where X and Y are her consumption of 2 goods), what would be the excess burden of a \$1 tax on the person's Y consumption, if initially the prices of goods X and Y were \$1 each, and if the person's income were 200?

end