

time = 50 minutes

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

1. "A monopoly will always shift the entirety of an excise tax forward onto buyers."

True, false, or uncertain? Explain your answer.

2. What would be the effect on income distribution of a tax change in which employment insurance premia (which are a proportional tax on wage income) were abolished, and the goods and service tax (GST) rate was increased so as to keep federal tax revenue the same? Explain your answer.

3. Suppose that the supply of bananas to Canada is perfectly elastic, and that the world price of bananas is \$4 per kilogramme. Suppose as well that there are no other taxes in the economy. What is the excess burden of a tax on bananas of \$5 per kilogramme, for a consumer whose compensated demand curve for bananas has the equation

$$Q = \frac{36}{\sqrt{P}}$$

where Q is the person's quantity of bananas demanded (in kilogrammes per year) and P is the price (including any taxes) which she pays for bananas, per kilogramme?