

AP/ECON 4070 3.0AF Midterm Exam Tuesday October 23 2012

time = 60 minutes

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

1. What would be the incidence of a \$5 unit tax in a perfectly competitive market in which the demand curve had the equation

$$Q^d = 32 - P^D$$

and the supply curve had the equation

$$Q^s = 4p_s - 8$$

where Q^D is the total quantity demanded of the good, Q^s is the total quantity supplied of the good, P^D is the price paid by buyers and p_s is the price received by sellers?

2. Discuss the long-run incidence of a tax on land used for housing. That is, the tax would be levied on owners of houses, based on the total land area of the property ; land used in other sectors (commercial, agricultural, office buildings, etc.) would not be subject to the tax.

3. Suppose that an excise tax is imposed on some good Y , and consumers regard some other untaxed good X as a very close substitute (but not a perfect substitute) for good Y . Would there be an excess burden from the tax on Y ? Explain briefly.