ECON 635: Public Economics

1- Taxland has a GDP of 15 billion dollars. The President has announced that government will take steps to increase the GDP to 16.2 billion dollars next year without increasing the tax rate. Presently the country collects 20% of GDP as tax revenue and has an ICOR of 3. Taxland runs a current account deficit (imports minus exports) of 0.45 billion dollars. Actual government expenditure is 2.4 billion dollars this year. Propensity to save out of disposable income is 10%.

What should be the level of government's current expenditure next year if the President's promise has to be fulfilled?

2- The market on the left is for train trips, and the market on the right is domestic airplane trips. The supply curve, price, and quantity demanded initially are the same in each case. However the demand curve for domestic airplane trips is assumed to be steeper.

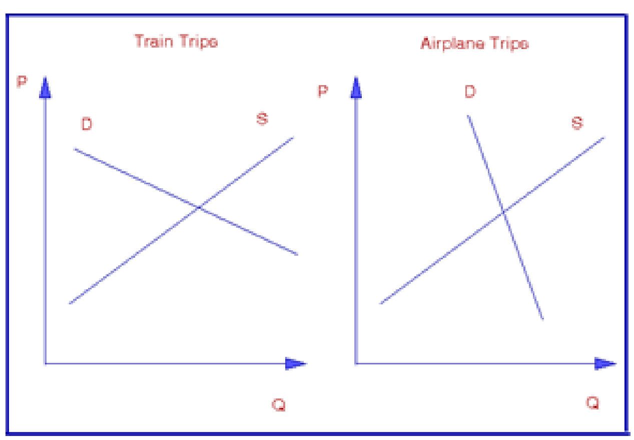
Suppose you need to decide whether to put 10% tax on train trips or on airplane trips but not both.

(a) In which market will tax revenue be highest?

(b) In which market will excess burden be highest?

Suppose now you are asked to put a tax on both train and airplane trips. Assume that train trips and airplane trips are substitutes.

(c) Discuss how could you adjust the tax rates to bring in the same amount of total tax revenue, but with a lower efficiency cost? Explain.



3- How would you design tax rules to ensure that non-performing SOEs are penalized more than those which generate higher profits?

4- Almost thirty five years ago Stanley Please argued that higher taxes would boost government consumption spending but not government savings/investment.

a. If Please is correct, what effect will a higher tax rate have on the rate of economic growth?

b. How plausible is Please's contention?

5- What are the factors that determine the degree of cascading of a turnover tax? Briefly explain.

6- The country of Borderland is considering imposing an excise tax on all alcoholic beverages. What are the advantages and disadvantages of structuring this tax as a unit (or specific) tax compared to an ad valorem tax? Discuss briefly.