Chapter 16

1. a. What important lessons about tax incidence can be learned from a partial equilibrium analysis?

b. What are some limitations of partial equilibrium analysis regarding tax incidence that a general equilibrium analysis can take into consideration?

2. Why is the question of tax incidence more compelling in a second-best policy environment than in a first-best policy environment?

3. Under what conditions is the tax payment a valid measure of the incidence (burden) of the tax?

4. What are the three standard measures of tax incidence in the literature?

5. a. What are the various assumptions that economists make about the disposition of the tax revenues in a general equilibrium setting?

b. What are their strengths and weaknesses?

c. Which one is used to model the incidence of a single tax and what does it imply about how the incidence of the tax will be measured?

6. How would one model the incidence of substituting one tax for another in a one consumer equivalent economy with general technology?

7. Suppose that the incidence of a set of taxes is measured as the loss suffered by each individual from the taxes.

a. What complications does the assumption of general production technology pose that are absent with linear production technology?

b. In defining the loss measure, which is preferred, returning the tax revenue lump-sum or returning the government budget deficit (surplus) lump-sum?

8. What are the advantages and disadvantages of using the indirect utility function instead of deadweight loss as a measure of tax incidence?

9. a What is a general tax?

b. Why must all general taxes have the same incidence in a static, one-consumer equivalent, profitless, competitive economy under both the loss and change-in- relative-price measures of incidence?

c. Given an ad valorem tax rate on a subset of the goods and factors, what tax rate on the other goods and factors would have the same incidence?

d. Why is a 100% sales tax equivalent to a 50% income tax?

10. a. In a realistic many person economy, what are some of the difficulties of determining the incidence that each individual bears from a tax system?

b. Why do these difficulties disappear if the aggregate social welfare perspective is adopted?

11. Harberger's analysis of the incidence of the corporation income tax is the seminal analysis of tax incidence in a general equilibrium model.

a. Given the general equilibrium model that Harberger chose, why did he choose to analyze a partial tax, the corporation income tax, rather than a general tax such as the payroll tax?

b. Harberger chose the relative price measure of incidence. How would his results have changed had he chosen the loss measure of incidence?

c. In Harberger's model, what factors determine the incidence of the corporation income tax?

d. Why did Harberger conclude that, in the United States, capital bears almost all of the burden of the corporation income tax?

12. What is the basis of Stiglitz's argument that the corporation income tax might not change the opportunity cost of capital?

13. Explain how the following modifications of the basic Harberger model might affect the incidence of taxes, including taxes on capital such as the corporation income tax.

a. Variable factor supplies

b. Mobile vs. immobile factors

c. Imperfect instead of perfect competition

d. Consumers with different preferences