1. Be able to define the following terms: general tax, selective tax, excise tax.
2. Be able to define the following terms: tax base, tax rate, tax bracket.
3. Be able to explain the difference between the average tax rate and the marginal tax rate.
4. Be able to describe the differences between a proportional, progressive, and regressive tax rate structures. Is the tax rate structure of the personal income tax proportional, progressive, or regressive?
5. Explain the difference between the benefit principle and an ability-to-pay principle in imposing taxes. Be able to explain the differences between vertical equity and horizontal equity and describe some of the challenges in applying those two equity principles.
6. What is the difference between tax evasion and tax avoidance?
8. Be able to explain the difference between a per-unit tax and an ad valorem tax.
9. Be able to define the term deadweight loss (or excess burden)? Explain why the imposition of a tax will typically create a deadweight loss.
10. Will the deadweight loss from a tax be larger or smaller when demand for the good is more elastic? How does the size of the deadweight loss change as the size of the tax is increased (linearly or exponentially)?
11. What is the efficiency loss ratio? What does this imply about the benefit society should receive from $1 raised in taxes?
12. What is the difference between the legal incidence of a tax and the economic incidence? In a competitive market, will changing the legal incidence alter the economic incidence? Explain why or why not?
13. Be able to define the terms forward shifting and backward shifting.
14. Explain how the division of the burden of the tax is determined by the elasticity of supply and demand. If the elasticity of demand was -2 and the elasticity of supply was 0.2, would firms or consumers pay the majority of the tax? If demand were perfectly inelastic, what share of the tax would consumers pay? What if demand were perfectly elastic?
15. Assume a good is being sold in a competitive market and the demand function for the good is \( Q_D = 100 - 3P \) and the supply function for the good is \( Q_S = 2P \). Now assume a per-unit tax of $1 is imposed on the good.
   a) What is the pre-tax price and equilibrium quantity?
   b) What is the post-tax price and equilibrium quantity?
   c) How much tax revenue was collected?
   d) What share of the tax was paid by consumers and what part was paid by firms?
   e) What is the deadweight loss from the tax?
   f) Show the imposition of the tax graphically.
16. If a per-unit tax is imposed on a monopolist, how will the burden of the tax be divided between consumers and firms? What will happen to the firm’s economic profit?

17. If an industry has a competitive market and it is a constant cost industry, who will bear the burden of a per-unit tax in the long run? What if the industry is an increasing-cost industry?

18. If taxes were imposed to minimize excess burden, would higher taxes be imposed on goods where demand was more elastic or more inelastic? Be able to show this graphically. Explain how this type of policy would affect equity.

19. What is the difference between a deficit and a debt?

20. What is the high-employment deficit?

21. In the federal budget, what programs are “off budget”? What is the unified budget balance?

22. In the traditional view, how will increased government borrowing effect the interest rate? How could this affect investment and the long-term growth of the economy?

23. Assume there is Ricardian equivalence in the credit market. Will an increase in government borrowing alter the interest rate? Explain and show graphically.

24. Explain how deficit finance will redistribute the burden of financing the current expenditures to future generations. What factors could reduce the burden placed on future generations?

25. How would the incidence of a surplus differ depending on whether it is used to retire debt or for tax cuts?

26. What is the difference between internal debt and external debt? What are the consequences of having a larger share of the government’s debt held externally?

27. How will the expected decline in the Social Security Trust Fund alter the financing of federal expenditures in the future?

28. What is a Laffer curve? How could cutting tax rates lead to an increase in tax revenue? Has cutting federal income tax rates lead to higher revenues?

29. Why would state and local governments need to pay higher interest rates when they borrow than the federal government? What is the economic rationale for borrowing by state and local governments?

30. What is the difference between general obligation bonds and revenue bonds?