1. Be able to define the following terms: deduction, standard deduction, itemized deduction, personal exemption, tax credit, average tax rate, marginal tax rate, tax unit, tax base, tax rate schedule.

2. Why do economists focus their analysis on the marginal tax rate rather than the average tax rate? Why should a tax system be designed to keep marginal rates as low as possible?

3. How does the failure to adjust for inflation distort the taxation of capital gains? What are some of the problems in taxing capital gains?

4. What is the Alternative Minimum Tax? Why was the AMT initially put into place? Why will large numbers of citizens be paying the AMT in the next ten years? Why does having a large family, exercising stock options, and living in a region with high taxes make it more likely that a taxpayer will be subject to the AMT?

5. Why will it be difficult to change the AMT to reduce the number of people it will affect?

6. What changes did the Bush 2001 tax cut make in the tax schedule? How did the legislation alter the AMT? Why are the cuts temporary? Which groups benefited the most from the cuts? According to the estimates in the Brookings paper, how will the tax cuts alter the growth in GDP?

7. How did the Bush 2003 legislation affect the taxes on dividends and capital gains?

8. How does the combination of rising deficits and the growth of the coverage of the AMT create challenges in maintaining the Bush tax cuts?

9. What is the marriage penalty? Why might individuals pay higher taxes when they are married than if they were single? How might the system result in a marriage bonus?

10. What is a tax expenditure? What are the largest tax expenditures?

11. How could the exemption for employer-provided health insurance create an efficiency loss?

12. Is there an economic justification for the deduction on charitable contributions?

13. How does the deduction for mortgage interest make the income tax less progressive?

14. Define the terms income and substitution effects.

15. If a lump-sum tax is imposed, is there any deadweight loss? Explain why or why not. Show the effect of a lump-sum tax graphically.

16. Will an income tax create a deadweight loss? Explain. How would it be possible to have a perfectly inelastic supply curve of labor and the income tax to still create a deadweight loss?

17. Be able to show graphically with budget lines and indifference curves how the income tax can create a deadweight loss.

18. Be able to show graphically how the change in leisure time resulting from the imposition of a tax can be broken down into income and substitution effects.

19. How do the substitution and income effects determine if the supply curve of labor is upward sloping or downward sloping?

20. How sensitive is the labor supply of men to changes in the tax system? Of women?
21. How does the income tax affect the return on savings? Will a decrease in the post-tax interest rate increase or decrease the amount of savings (discuss both the theory and the studies which have been done)?
22. What are the justifications for imposing a corporate income tax?
23. Be able to define the terms: economic depreciation, economic business income, straight-line depreciation, and declining balance depreciation?
24. According to economists, when would accelerated depreciation occur?
25. What is the implicit interest cost of owner equity?
26. Assume that a piece of equipment with a price of $2,100 will last three years. If the interest rate is 10 percent, what is the present value under straight-line depreciation and under declining balance depreciation?
27. Explain what is meant by the term “neutrality of taxes on economic profit.”
28. How does the calculation of economic profit differ from taxable business income (TBI)?
29. What are the four ways that the corporate income tax can alter the behavior of firms?
30. What do we know about the incidence of the corporate income tax?
31. What are the three major business “tax expenditures”? Be able to explain how each one allows firms to reduce their taxes.
32. What is meant by the integration of corporate income taxes? What is the difference between full integration and the imputation method?
33. How would a cash-flow business tax differ from the corporate income tax?
34. Be able to list arguments for and against the following proposed tax reforms/alternatives:
   a) VAT
   b) Flat tax
   c) Elimination of tax expenditures (elimination of deductions, making fringe benefits taxable)