

Economics 512  
Study Questions for Second Exam  
Fall 2013

The essay questions on the Econ 512 second examination will be drawn from this list of questions.

1. “Small corporations should face lower corporate tax rates than large businesses, just as individual with low incomes should face lower income tax rates than those with high income.” Analyze and evaluate this statement.
2. In what sense does the corporate income tax subject corporate profits to double taxation? What are the consequences of this for the incidence and efficiency of the corporate tax?
3. Compare the bases of the Hall-Rabushka flat tax, a broad-based general sales tax, and a consumption-based VAT.
4. The incidence of the sales tax or VAT over the lifetime of taxpayers is less regressive as compared to the incidence in a particular year. Explain.
5. The so-called flat tax (as proposed by Hall and Rabushka and advocated by Steve Forbes) is actually a consumption-based tax and not an income tax. Explain.
6. What is the difference between an expenditure (cash-flow) tax and a sales tax? What is the difference between an expenditure tax (cash-flow) and an income tax?
7. If we had a truly comprehensive individual income tax (based on the Haig-Simons approach), there would be no reason to have a corporate income tax or estate and gift taxes. Explain and evaluate this statement.
8. How would business interest payments and receipts be accounted for in a flat tax (as proposed by Hall and Rabushka)? How would depreciation be dealt with? Explain.
9. ~~Briefly define and compare the following taxes: estate taxes, inheritance taxes, and gift taxes. How are the gift and estate tax related in the United States?~~
10. What advantages would a comprehensive expenditure tax (or cash-flow tax) have over a more narrow consumption taxes such as sales or value added taxes? What would be the disadvantages?
11. Explain why the corporate income tax may reduce the return on all investment including that in the noncorporate sector? Why does a corporate income tax create an excess burden?
12. A value added tax and a Hall-Rabushka flat tax appear to be quite different in the way they are applied and administered, yet they are very similar in their economic impacts? Explain.
13. ~~The real property tax is often considered to be regressive by the public. Most economists do not accept this assertion. Briefly explain why.~~
14. What would be the problems of a transition from an income tax to a consumption tax? If the transition protected all those who might be harmed, what would be the impact on tax rates and on possible economic efficiency gains from the change?
15. ~~Explain the factors the tax authorities might consider in the attempt to control tax evasion? Should they strive to eliminate evasion?~~

16. Explain how inflation can create problems in regard to the taxation of the income, especially in regard to the income from capital (e. g., interest, dividends, and capital gains). How might these problems be dealt with?
- 17A. Briefly review the possible theoretical impacts of income taxation on work effort. Summarize the results of empirical studies of the question.
- 17B. The impact of a proportional income tax on work effort is theoretically ambiguous. Explain. How might the different responses to increased taxes impact the excess burden of the tax?
18. The impact of a proportional income tax on the return on savings is theoretically ambiguous. Explain.  
Show the potential excess burden from such a tax.
19. Optimal tax theory provides a detailed guideline for real world tax policy. Agree and disagree and explain.