

EC2106 PUBLIC ECONOMICS
LECTURE 9 - Exam Preparation

David Seim

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Exam Structure

- 3-4 questions
- Emphasis on problem solving rather than rote learning.
- Points range: 0-100.
- In addition, you have the quiz points (0-20).
- Grade is based on the sum of exam points and quiz points.

But, grade is based on the range 0-100. Scoring 100 or 120 thus yield the same grade.

- Emphasis on short and exact answers.

Example questions

- True / False / Uncertain. Explain your answer in **five sentences or fewer**. Your grade depends entirely on the substance of the justification, not on whether you are correct in writing "True" or "False".
- *Empirical evidence of bunching at thresholds in the marginal tax rate shows that the standard model of labor supply behavior ($\max u(c,l)$ subject to $c = wl(1 - \tau) + R$) is a good description of actual labor supply behavior.*
- *Evidence from changes in cigarette taxes in the US shows that the price of cigarettes rises by the full amount of the cigarette tax. Therefore, cigarette producers bear the full burden of the cigarette tax.*
- *When individuals win lotteries, they share the gains equally within the family.*

Example questions

- Suppose the government taxes labor earnings proportionally and labor supply is a function of the tax rate.

Explain the expression for the revenue-maximizing tax rate. No need to provide calculation.

- **Answer:**

1. Trade-off: Higher tax rate leads to more gov't revenue. Higher tax rate leads to lower earnings.
2. Revenue-maximizing tax rate balances those effects by setting it inversely to the earnings elasticity w.r.t. the net-of-tax rate.
3. It decreases with the elasticity. Intuition: The more sensitive earnings are, the less you can tax earnings.
4. It can never be optimal to have a tax rate above the revenue-maximizing one.

THANK YOU!

- david.seim@su.se

I often supervise theses within Public Finance.

- Career advice for those wanting to get a Master (and PhD):
 - i. Learn Mathematics; Statistics and Programming.
 - ii. Work as research assistant for faculty.
- Please fill out the official course evaluations!
 - Feedback device for me.
 - Information to the department about what courses work well and not.