

Suppose that a person would choose to borrow if the return to saving were *not* taxed, and if the costs of borrowing were *not* tax-deductible. Would that person choose to borrow ( rather than to save ) if the return to saving were taxable, and the costs of borrowing were tax-deductible? Explain briefly.

Suppose that the government were to institute a tax credit of \$1000 against the personal income tax as a method of reducing the impact of the goods and services tax on low-income people. Suppose that this \$1000 was a credit which could be applied against any taxable income ( but not a tax rebate ). Suppose also that in order to concentrate its benefits among the poorer taxpayers, the government decided to reduce the credit by \$100 for every \$1000 of the person's taxable income over and above \$20,000 annually. Discuss how this programme would affect the shape of people's budget sets.

Would a decision-maker with "Rawlsian" ( maximize the well-being of the worst-off person ) want the top marginal rate on the personal income tax to be near 100 percent? Explain briefly.

Illustrate the effect of a compulsory pension plan on the intertemporal consumption decision of a worker.

What is the golden rule of economic growth in the overlapping-generations model? How could tax policy help implement this golden rule?

If the rate of growth of the labour force exceeds the real rate of interest, would it be a good idea to exempt the return from saving from the personal income tax? Explain briefly.

A person's utility function can be written

$$U(X, L) = X - L^2$$

where  $X$  is her consumption of commodities, and  $L$  is the proportion of the week that she spends working. She can choose her labour supply  $L$  freely, and is paid a wage of  $w$ . Would a tax on her labour earnings reduce her supply of labour? Explain briefly.

A person lives for  $n$  periods, and has Cobb-Douglas preferences

$$U(C_1, C_2, \dots, C_n) = C_1 C_2 \dots C_n$$

over consumption in the different periods. She has already retired, and currently has wealth of  $W$ , from which she will finance her consumption. The interest rate is  $r$  per period. How will a tax on her interest income affect her saving this period?

A decision-maker with "Benthamite" preferences ( maximize the sum of people's utilities ) would prefer no taxes at all to levying a distortionary value-added tax, with the proceeds paid out equally to all people. True or false? Explain briefly.