

HW # 2 [25 points] Due: at the beginning of class, Tuesday, March 18.

These questions refer to “Gruber Table 18-3, Revised and Expanded”, which is on the class website and was distributed in class. The following questions are based on information in that table, in Chapter 18, or in class. Note: In the questions below, and in the table, “income” refers to “taxable income”.

1. Show detailed calculations to verify the amount of tax Condi owes as an individual under Tax Schedule A.
2. Carefully sketch and fully label a graph of Tax Due against Taxable Income, based on Tax Schedule A, for incomes ranging from \$0 to \$150,000.
3. For income levels \$10,000 apart, from \$10,000 to \$150,000, determine the marginal tax rate (to 2 decimal positions) and the average tax rate (to 3 decimal positions), for Tax Schedule A. Present your results in a neat 15-line table. (This question requires a lot of calculations.)
4. Carefully draw a graph of the marginal tax rates in Tax Schedule A, similar to Figure 18-3 in the text, for incomes ranging from \$0 to \$150,000. In the same figure, plot the values of the average tax rate calculated for the 15 income levels in the previous question.
5. Is Tax Schedule A basically progressive, proportional, or regressive? Justify your answer, based on public finance concepts.
6. Suppose Barack and Michelle Obama say the income tax is “marriage neutral” for them — together they would pay the same tax whether they are married or not. Suppose Barack earns more than Michelle. If their total family income is \$150,000, determine each of their individual incomes. (This requires some detective work.) By presenting calculations, show that the system is marriage neutral for them. How did you determine their incomes?
7. Consider a new Tax Schedule C that has tax brackets twice as wide as Schedule A (the first bracket is \$0 to \$40,000, the second is \$40,000 to \$160,000, and the third is \$160,000 & up), with the same set of tax rates as Schedule A. Would the Bushes face a marriage penalty if this were the schedule for married couples? Would the Clintons? (For each of these questions, show the relevant tax amounts to support your answer, but do not show the underlying calculations.)

Assignment Notes:

1. You may work with other students on these problems, but you must write up your own answers.
2. To inhibit mindless copying, no answers worked on in class will be accepted.
3. Late submissions will not be graded.