1

Question 1 - True/False Questions (20%)

You need to explain your answer, just a true false or “it depends” statement without any arguments is not rewarded.

Question 1a

The conventional corporate tax is a distortionary tax.

Question 1b

The Atkinson measure of income inequality is based on the Lorenz curve.

Question 1c

A tax on annual wealth and a tax on capital income have essentially the same economic effects.

Question 1d

The Laffer curve suggests that increasing the tax rate will always increase government tax revenue.

2

Question 2 - Dual Income Tax (40%)

Figure 1 is also available as an external resource at the bottom of the page.

Question 2a

Explain what characterizes a dual income tax (DIT) schedule and how its design answers to some of the key results of optimal taxation.

Question 2b

Judd (1985) and Chamley (1986) both came to the same conclusion with respect to the optimal taxation of capital. What is the famous “Chamley-Judd result”? How do Chamley and Judd reach their conclusion?

Question 2c

Explain the challenge when taxing small businesses under DIT, referred to as the “Achilles heel” of the dual income tax.

Question 2d

How did the Norwegian tax reform of 2006 respond to the challenges of the DIT?

Question 2e

Explain the pattern seen for dividends in Figure 1 in relation to the reform of 2006.

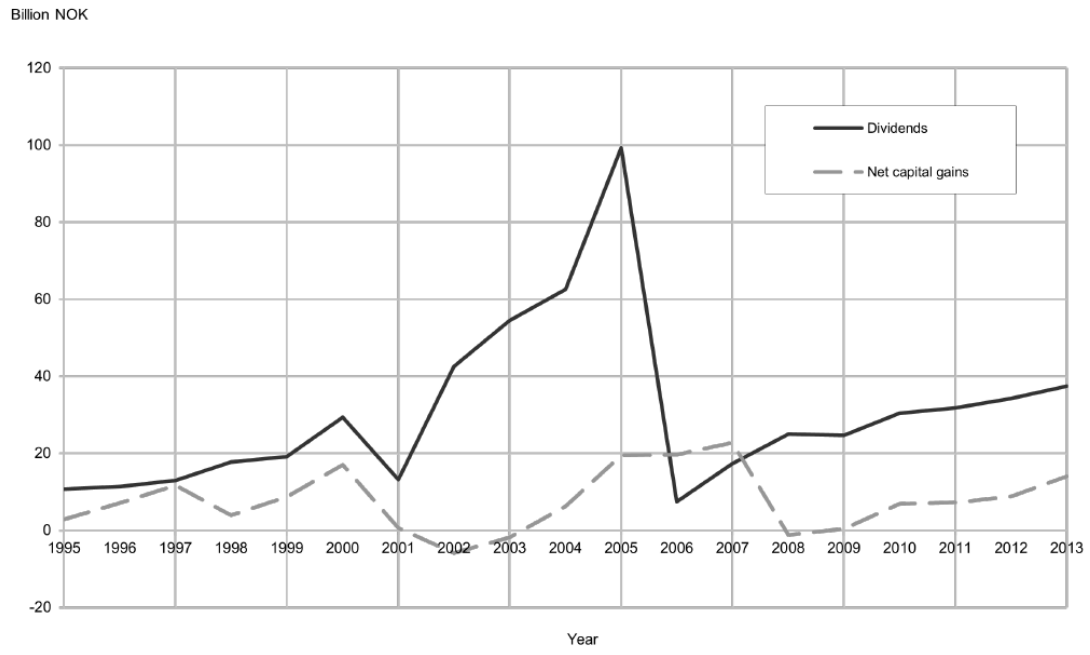


Figure 1: Dividends and net capital gains in Norway over time

3

Question 3 - Wealth Transfer Taxation (40%)

Figure 2 and Table 1 are also available as external resources at the bottom of the page.

Question 3a

Wealth transfer taxes are much more common than net wealth taxes. Provide two reasons for why governments may choose to have a wealth transfer tax, and not a net wealth tax.

Question 3b

For each of these bequest motives, briefly explain what they mean:

- (i) Warm glow of giving
- (ii) Altruism
- (iii) Strategic giving

Question 3c

Assume a retired parent P has available wealth w_P that they can spend on their own consumption with utility $u_P(c_P)$. They bequeath everything they do not consume to their child C, with bequest $b = w_P - c_P$. The child has utility $u_C(c_C)$. For each of these bequest motives, show how they enter the utility function of the parent:

- (i) Warm glow of giving
- (ii) Altruism
- (iii) Strategic giving

Question 3d

Assume bequests are taxed at a flat tax rate $\tau > 0$. For each of these bequest motives, state whether the tax has an excess burden and why (not):

- (i) Warm glow of giving
- (ii) Altruism
- (iii) Strategic giving

Question 3e

Explain the Carnegie effect.

Question 3f

Describe Figure 2 and relate it to the Carnegie effect.

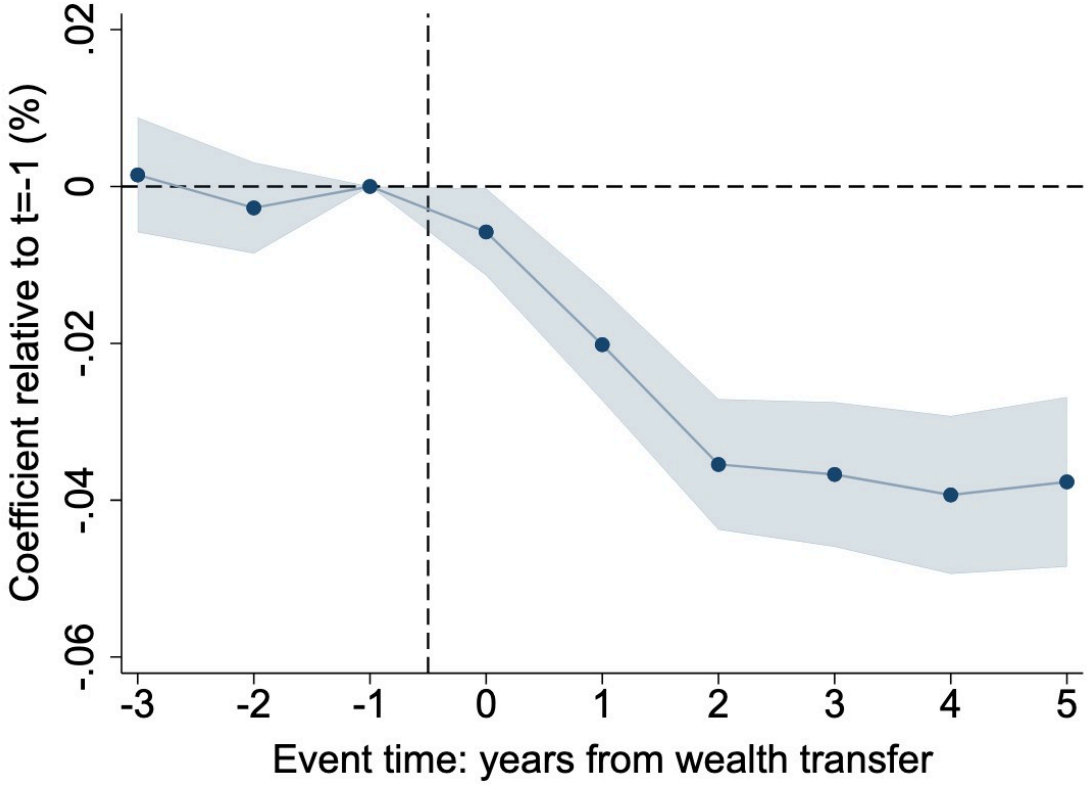


Figure 2: Event-study estimate of the pooled earnings response

Notes: This figure shows the event-study coefficient estimates of the impact of receiving a wealth shock on the log of labor earnings. It plots coefficient estimates and the 95 percent confidence intervals: each point shows the effect of the wealth shock $k \in [-3, 5]$ years from the realization of the shock relative to $k = -1$. Wealth shocks include both inheritances and lottery wins. Standard errors are clustered by individuals. The sample contains 1,266,430 person-year observations. (This is Figure 2 from Brülhart, Eyquem, Martinez, and Rubolino (2025).)

Question 3g

Describe the findings from Brülhart, Eyquem, Martinez, and Rubolino (2025) in Table 1 and explain what these findings imply for the Carnegie effect.

Question 3h

Assume there is a Carnegie effect: how does that impact the optimal tax rate for wealth transfers, and why?

Table 1: Earnings responses to wealth shocks

	All (1)	Inheritances (2)	Lottery (3)
Earnings elasticity	-0.047^{***} (0.005)	-0.046^{***} (0.005)	-0.082^{***} (0.031)
Obs.	1,266,430	1,219,122	47,308
Individuals	140,490	135,150	5,340
Average earnings (CHF)	43,517	43,500	44,029
Avg. wealth shock (CHF, p.v. adjusted)	349,798	349,703	352,662
Avg. wealth shock (CHF, nominal)	128,854	129,038	123,261

Notes: This table reports the earnings elasticity to wealth shocks, pooled across age groups. Column (1) considers wealth shocks from inheritance and lottery wins; column (2) focuses only on inheritances; column (3) only on lottery wins. The table also reports information on recipients' average earnings, the average nominal wealth shock, and the average present-value-adjusted wealth shock (computed by multiplying the nominal wealth shock by (1+0.03) raised to the power of the number of years from when the wealth is received until age 90: $W_i^{pv} = W_i(1+0.03)^{[90-a_i]}$).
***Significant at the 1 percent level
**Significant at the 5 percent level
*Significant at the 10 percent level.
(This is an extract from Table 1 in Brülhart, Eyquem, Martinez, and Rubolino (2025).)

References

Brülhart, Marius, Aur´elien Eyquem, Isabel Martinez, and Enrico Rubolino (2025). *The Output Cost of Inheritance*. SSRN Scholarly Paper. Rochester, NY. doi: 10.2139/ssrn.5741803.