ECON3620/4620 – postponed exam, spring 2024

The exam consists of three main questions. The weight of the different questions is indicated in the parentheses.

1. **True/False Questions (30%).** You need to explain your answer, just a true false or "it depends" statement without any arguments, is not rewarded.

(a) A lump sum tax has no excess burden.

(b) A wealth tax is a tax on the normal rate of return.

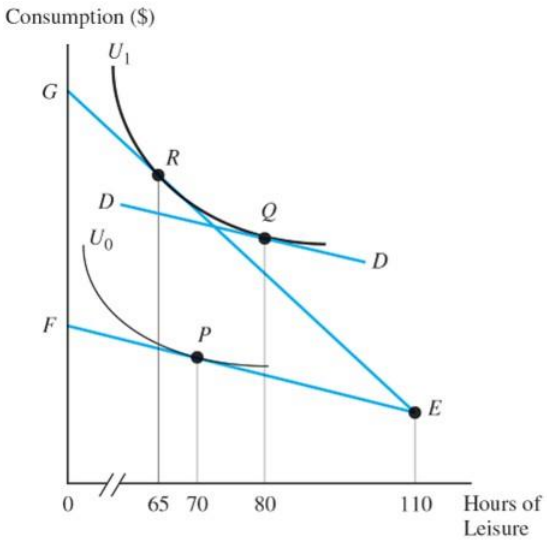
(c) The corporate income tax is not distortive.

(d) The incidence of a tax on good x is independent on whether it is the producers or consumers of x who have to pay the tax.

(e) Natural resources provide an opportunity to raise tax revenue in a non-distorting manner.

2. Income Tax (40%)

(a) The figure below describes how a person may react to a wage increase, from F to G. Does the person work more to the increased wage? Which effects are involved?



(b) Many argue that estimates of the so-called elasticity of taxable income (ETI) is more informative about effects of tax reforms than approaches that focus on effects on working hours only. Discuss this statement.

(c) Explain the standard empirical approach to get estimates of the ETI.

(d) ETI is referred to a sufficient statistics for the efficiency costs of taxation. Explain what is meant by this.

3. Inheritance Tax (30%)

(a) Explain what the "Carnegie effect" is in terms of transfers from parents to children (inheritance). Why is the existence of a "Carnegie effect" an argument for taxing inheritance?

(b) Explain briefly how you may proceed in order to get empirical estimates of the Carnegie-effect by the use of micro data over a period of time. Assume you have micro panel data on working hours and parental transfers for a group of individuals who are at an age where they might receive transfers from their parents. Some individuals receive transfers, while others do not.

(c) Some argues that the efficiency loss of an inheritance tax is modest. How would you explain this.