Exam 3

Part 1: Short answers.

Answer 1 of the following 2 questions
Keep your answers to a few sentences.

1a. Greg Berg is 30 years old. He expects to retire sometime around 2035. He states; “I’ve read the numbers. I know Social Security will be bankrupt and won’t be able to pay one red cent by the time I retire. If the current system continues without changes, I won’t get any Social Security Retirement benefits.”

Is Greg correct? Will Social Security not be able to pay anything, if there are no changes to the current system, after about 2035? If not, clearly explain why.

1b. How is unemployment insurance financed? In particular, answer the following questions for me: Who directly pays for unemployment benefits? Is the system funded or pay as you go? Do all payers pay at the same rate?”

Part 2: More Long Essays

Answer 2 of the following 3 questions

2a. Ahhh! The semester is over and you are on vacation. You, of course, go to Ozark, Missouri to visit your favorite Uncle, Duane. Duane is getting near retirement. He states; “You know young-un, I’m not the spring chicken I used to be. I’ll be retiring soon and I ‘m mighty worried. I saved all my pay vouchers and have figured out that I haven’t paid much into my social security account. I might not be able to live very well in retirement.”

At this time Aunt Shana, Duane’s wife, says; “Duane, I’ve stayed home and raised your kids for you instead of working. Now you tell me you haven’t paid much into Social security! You better have a plan to feed us during our old age!”

Help straighten Duane out a bit. In particular, answer the following:

• Explain how current (and those in the near future) Social Security benefits are funded.

• How are Duane’s future benefits tied to the amount of payroll tax money he has seen on his pay stubs? Hint: There are two parts to this question. 1) Is Duane the only one directly paying payroll taxes? 2) How are past payments tied to benefits?

• What kind of deal do you think Duane and Shana are getting out of Social Security? Explain your answer.
2b. In France in the 1790’s de-capitation was tried as solution to combat rising health care costs. Today, in the U.S., we are experimenting with capitation as a solution to rising health care costs. Answer the following questions regarding capitation.

- What is capitation?
- What is the main alternative to capitation? Hint: It is not decapitation.
- Who is the primary group trying capitation in the U.S., the private sector or government?
- Give me another name for capitation.
- Discuss the pros and cons of capitation.

2c. Holy Rising Costs Batman! Health care costs in the U.S. have been increasing by about 10% a year (≅ 8% above inflation) in recent years. Similar rates of increase have also been seen in other developed nations. Further, similar rates are expected to continue into the near future.

- What has been causing these rising costs? i.e. What is different about health care (and health insurance) that is pushing up its costs so fast.

---

Part 3: More Long Essays

Answer 1 of the following 2 questions

3a. In France, employers pay various payroll taxes that amount to 36% of wages. Legally, it is the employers that are required to pay this tax.

- Under what conditions are French employers likely to end up bearing the majority of the burden of this tax? Illustrate your answer with a supply and demand diagram.

- Under what conditions are French workers likely to end up bearing the majority of the burden of this tax? Illustrate your answer with a supply and demand diagram. Explain how French workers can bear the burden of this tax even if it is employers who are legally required to pay for it.
3b. Below you have pre-tax supply and demand curves for canoe rentals at lake Econbegone. Now assume that the local government imposes a 33% excise tax on canoe rentals. **Sellers** (i.e. the canoe rental companies) must pay this tax under the new law.

Graphically, show the effects of this new tax. Make sure it is obvious what the new curve is. Also, label all the relevant points, PEO, QEO, etc.) in both the pre-tax and post-tax equilibrium.

- What is the price buyers pay after the tax is imposed?
- What is the (after tax) price sellers receive after the tax is imposed?
a. Graphically, show the effects of this new tax. Make sure it is obvious what the new curve is. Also, label all the relevant points, PEO, QEO, etc.) in both the pre-tax and post-tax equilibrium.

b. What is the price buyers pay after the tax is imposed?

c. What is the (after tax) price sellers receive after the tax is imposed?