Exam 3

Name: ___________________

Answer 4 of the following 5 questions. (25 points each)

1. Illustrate and explain a negative income tax system. More specifically, show/answer the following:
   • a graph showing a low/middle income person’s budget line under the program
   • a 2nd graph showing the effective marginal tax rates as a function of income
   • an explanation for your budget line graph. i.e. Explain the different slopes & “kinks”
   • What are the strengths and weaknesses of the system? Use indifference curves to illustrate this.

2. Illustrate and explain the Earned Income Credit. More specifically, show/answer the following:
   • a graph showing a low/middle income person’s budget line under the program. Make sure the person has enough potential income (if they work enough) to experience all the effective marginal tax rates possible under the EIC..
   • a 2nd graph showing the effective marginal tax rates as a function of income
   • an explanation for your budget line graph. i.e. Explain the different slopes & “kinks”
   • What are the strengths and weaknesses of the system? Use indifference curves to illustrate this.

3. During the last presidential campaign, both Bill Bradley and Ralph Nader argued for compulsory and universal participation in a government health insurance program. This is a pretty radical idea for the United States. It would amount to replacing voluntary, private insurance with a compulsory, public insurance program. What are the arguments for a single, compulsory health insurance program?

4. Holy Rising Costs Batman! Health care costs in the U.S. have been increasing rapidly (≅ 6% 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? What is different about health care (and health insurance) that is pushing up its costs so fast?

5. • What is the difference between defined benefits and defined contributions pension plans?
   • What/who is AIME and does she go to TCU?
   • Graph benefits (on the vertical axis) with respect to AIME for a defined benefits pension plan.
• Graph benefits (on the vertical axis) with respect to AIME for a defined contributions pension plan.

• Graph benefits (on the vertical axis) with respect to AIME for the current U.S. Social Security system. Briefly explain your graph.