

ECON 101

TA Worksheet, Module 10 (Inequality and Poverty)

Name: _____

TA: _____

1. How has **income inequality** changed in the US since 1980?

Increased (see Review)

2. What are some reasons for this change?

- Technology change: more demand for skilled workers
- Education Gap
- Top earner's earn a larger share of income today
- Gini Coefficient has risen since 1980

3. What's the difference between "means tested" social programs and "social insurance" programs?

Means-tested: below a threshold. Don't pay.
Social insurance: protect against loss of income.
(See Review) (need to pay).

4. Consider the data below. Is each tax progressive, regressive, or proportional? Why?

| Income | Tax A | Tax B | Tax C |
|-----------|--------------|-------------|--------------|
| \$50,000 | \$5,000 10% | \$5,000 10% | \$5,000 10% |
| \$100,000 | \$10,000 10% | \$8,000 8% | \$15,000 15% |
| \$200,000 | \$20,000 10% | \$12,000 6% | \$40,000 20% |

proportional

regressive

progressive

5. Consider the data below. If my income is **\$80,000**, what is my marginal tax rate? What is my average tax rate?

20%

| Income band | Tax rate |
|-------------------|----------|
| \$0-\$30,000 | 10% |
| \$30,001-\$60,000 | 15% |
| \$60,001-\$90,000 | 20% |

marginal, next dollar would be taxed by how much?
20%.

average: $30,000 \cdot 10\% + 30,000 \cdot 15\% + 20,000 \cdot 20\% = 3,000 + 4,500 + 4,000$
I pay \$11,500 in tax. This is $\frac{11,500}{80,000} = 14.375\%$

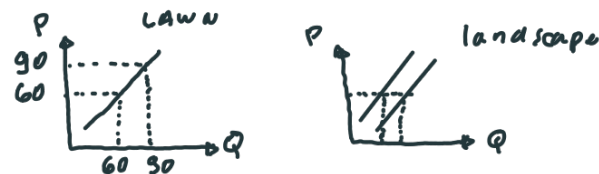
Exam Review

Hardest Questions from Midterm Exam F23

Question 1 (54%)

Levi's Landscaping and Lawnmower Repair is a family business with a fixed number of employees, all family members. During the summer, when the lawnmower repair business gets busy, and the rate for lawnmower repair rises from \$60 to \$90 per hour, Levi diverts some of his staff from landscaping to lawnmower repair. Thus, Levi's _____ rises, and his _____ decreases.

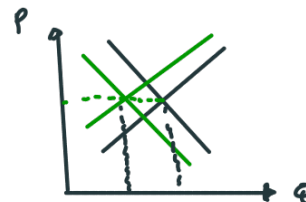
- (a) supply of lawnmower repair services; supply of landscaping services
- (b) supply of lawnmower repair services; price of landscaping services
- (c) quantity of lawnmower repair services supplied; price of landscaping services
- ☒ (d) quantity of lawnmower repair services supplied; supply of landscaping services



Question 12 (54%)

Suppose we observe the price of brats stay the same while the quantity falls. Which of these is consistent with that info?

- ☒ (a) The demand and supply for brats both fell. ✓
- (b) Demand for brats fell but supply rose. $P \downarrow$
- (c) Demand for brat rose but supply fell. $P \uparrow$
- (d) Demand for brats stayed the same but supply fell. $P, Q \text{ change}$
- (e) Demand for brats fell and supply stayed the same. $P, Q \text{ change}$

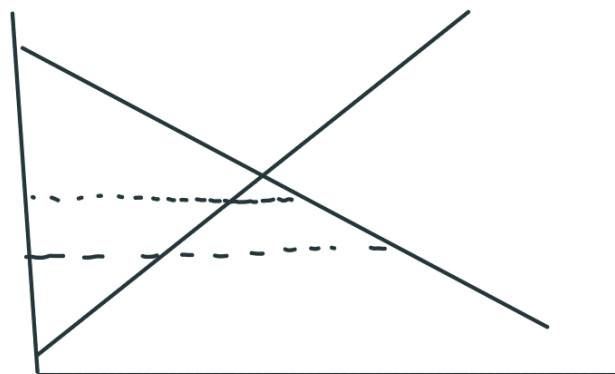


Question 17 (23%)

Import protections are often imposed because:

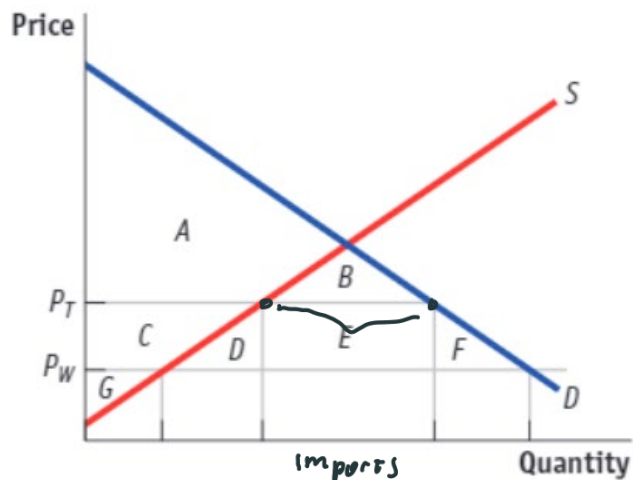
- (a) they increase total ~~surplus~~, even though some groups are harmed.
- ☒ (b) groups representing import-competing industries have more political power than consumer groups.
- (c) their benefits to producers outweigh the costs to consumers. *never ?*
- (d) the loss in consumer surplus is usually quite small. *no ?*

↳ maybe per person.



Question 27 (42%)

(Figure: The Market for Grapes in California) Use Figure: The Market for Grapes in California. When the government imposes a tariff on imported grapes, the price of grapes in California rises from P_W to P_T , and there's a net _____ in total surplus of _____.



- (a) addition; $D + E + F$
- (b) addition; $D + F$
- ☒ (c) reduction; $D + F$
- (d) reduction; $D + E + F$

Question 28 (58%)

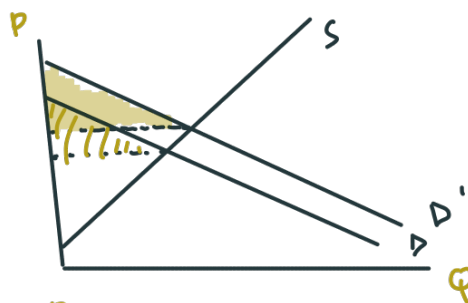
Compared to 1960, we now have...

- (a) higher poverty rates and more income inequality ✓
- ☒ (b) lower poverty rates but more income inequality ✓
- (c) higher poverty rates but less income inequality
- (d) lower poverty rates and less income inequality

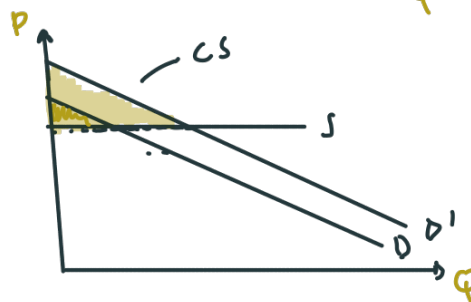
Question 30 (35%)

All else equal, a shift out in demand will increase consumer surplus more if supply is

- (a) slightly elastic
- (b) slightly inelastic
- ☒ (c) perfectly elastic
- (d) perfectly inelastic
- (e) unit elastic



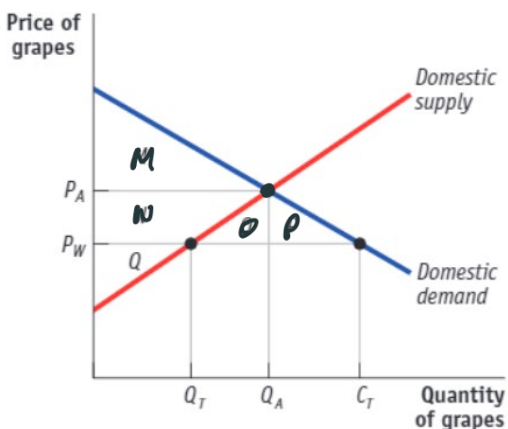
the flatter
the more
elastic



Hardest Questions from Midterm Exam S24

Question 8 (56%)

(Figure: The Market for Grapes in California) In autarky (without trade), the price of grapes in California is P_A . When the economy is opened to trade, the price falls to P_W , and the change in consumer surplus is area:



- (a) N .
- (b) $O + P$.
- (c) $M + N + O + P$.
- ~~(d) $N + O + P$~~
- (e) P

Question 19 (60%)

An industry that generates external benefits produces a quantity of output that is:

- (a) socially optimal ~~X~~
- ~~(b) less than the socially optimal quantity.~~
- (c) greater than the socially optimal quantity. ~~X~~
- (d) socially optimal if a subsidy is given to ~~buyers~~.

Question 21 (32%)

Of the following groups, for whom has the poverty rate NOT fallen significantly since the 1960s?

- ~~(a) children under 18~~
- (b) adults over 65
- (c) African Americans
- (d) White Americans



Question 27 (44%)

Which of these would NOT cause a rightward shift (out) of the supply curve for a good?

- (a) a fall in an input price *causes*
- (b) an increase in the number of sellers *causes*
- (c) an expectation that the product will go out of style in the near future
- ~~(d)~~ an increase in price caused by a shift in demand

Produce more today

Question 29 (60%)

Suppose we have this system:

$$D: P = 28 - 2Q$$

$$S: P = 8 + 3Q$$

Now suppose the government imposes a \$5 per-unit tax on producers. What is the new equilibrium price paid by consumers?

- ~~(a)~~ 22
- (b) 17
- (c) 5
- (d) 3
- (e) 25

$$P^s = 8 + 3Q + 5$$

$$P = 13 + 3Q$$

$$D: 28 - 2Q = 13 + 3Q$$

$$28 - 13 = 5Q$$

$$15 = 5Q$$

$$Q = 3$$

$$13 + 3(3)$$

$$P^c = 13 + 3Q$$

$$= 13 + 9$$

$$= 22$$