

## CHAPTER 16

# Public Choice Theory and the Economics of Taxation

Topic	Question numbers
16.1	Revealing preferences through majority voting
	Inefficient voting outcomes
	Interest groups and logrolling
	Paradox of voting
	Median-voter model
16.2	Government failure
	Special interests and rent seeking
	Clear benefits, hidden costs
	Limited and bundled choice
	Bureaucracy and inefficiency
	Imperfect institutions
16.3	Apportioning the tax burden
	Benefits received versus ability to pay
	Progressive, proportional, and regressive taxes
	The last word
	True-false

## Chapter 16 Public Choice Theory and the Economics of Taxation

1. The field of economics which examines government expenditures and taxation is called:
- A) public choice theory.
  - B) public finance.
  - C) political economy.
  - D) collective economics.

Ans: B Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 374 Subtopic: Inefficient voting outcomes Type: Definition

2. The field of economics dealing exclusively with the economic analysis of government decision making is called:
- A) public finance.
  - B) public choice theory.
  - C) collective economics.
  - D) political economy.

Ans: B Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 374 Subtopic: Inefficient voting outcomes Type: Definition

3. Public choice economists:
- A) analyze the incidence of taxes.
  - B) are also known as Keynesian economists.
  - C) use the tools of economics to analyze decision making in the public sector.
  - D) are economists employed by federal, provincial, and local governments.

Ans: C Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 374 Subtopic: Inefficient voting outcomes Type: Application

4. Public choice theory:
- A) is based primarily on the insights of the median-voter model.
  - B) is most concerned with giving the public more choices about the goods and services provided by government.
  - C) applies economic analysis to explain government decision-making.
  - D) considers government to be allocatively and productively efficient in its decision-making.

Ans: C Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 374 Subtopic: Inefficient voting outcomes Type: Definition

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5. Public choice theorists point out that the political process:
- A) differs from the marketplace in that voters and congressional representatives often face limited and bundled choices.
  - B) is less prone to "failure" than is the marketplace.
  - C) is a much fairer way to allocate society's scarce resources than is the impersonal marketplace, which is dominated by high-income consumers.
  - D) involves logrolling, which is always inefficient.

Ans: A Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes Type: Application

6. Refer to the following information. If the tax cost of this proposed project is \$600 per person, a majority vote will:

The following table shows the marginal benefit which a particular public project will provide to each of the three members of a community. No vote trading is allowed.

<u>Voter</u>	<u>Marginal benefit</u>
Xavier	\$500
Yoho	200
Zest	2000

- A) defeat this project and resources will be under-allocated to the public sector.
- B) defeat this project and resources will be allocated efficiently.
- C) pass this project and resources will be over-allocated to the public sector.
- D) defeat this project and resources will be over-allocated to the public sector.

Ans: A Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes Type: Application

Use the following to answer questions 7-8:

This table shows the ranking of three public goods by voters Larry, Curley, and Moe.

<u>Public good</u>	<u>Larry</u>	<u>Curley</u>	<u>Moe</u>
Lighthouse	third choice	first choice	second choice
Highway	second choice	third choice	first choice
Submarine	first choice	second choice	third choice

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7. Refer to the table above. In a choice between the highway and the lighthouse:
- A) a majority of voters favour the lighthouse.
  - B) a majority of voters favour the highway.
  - C) the voters are indifferent as between the two.
  - D) no voter decision is possible.

Ans: B Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes  
Type: Application

8. The inconsistency illustrated by the above table is that while a majority of voters prefer the:
- A) highway to the lighthouse and the submarine to the highway, they also prefer the lighthouse to the submarine.
  - B) lighthouse to the highway and the lighthouse to the submarine, they also prefer the submarine to the highway.
  - C) highway to the lighthouse and the submarine to the lighthouse, they also prefer the submarine to the highway.
  - D) lighthouse to the submarine and the highway to the submarine, they also prefer the highway to the lighthouse.

Ans: A Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes  
Type: Application

Use the following to answer questions 9-11:

Public good	Voter X	Voter Y	Voter Z
Stadium	2	3	1
Park	1	2	3
Jail	3	1	2

Note:

1 refers to the first choice

2 refers to the second choice

3 refers to the third choice

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9. Refer to the table. In a choice between a stadium and a park:

- A) a majority of the voters favour the park.
- B) a majority of the voters favour the stadium.
- C) a majority of the voters favour both the stadium and the park.
- D) there is not a majority of voters for either the stadium or the park.

Ans: A Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes  
Type: Application

10. Refer to the table. In a choice between a jail and a stadium:

- A) a majority of the voters favour the jail.
- B) a majority of the voters favour the stadium.
- C) a majority of the voters favour both the jail and the stadium.
- D) there is not a majority of voters for either the jail or the stadium.

Ans: B Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes  
Type: Application

11. Refer to the table. In a choice between a park and a jail:

- A) a majority of voters favour the jail.
- B) a majority of voters favour the park.
- C) a majority of voters favour both the jail and the park.
- D) there is not a majority of voters for either the jail or the park.

Ans: A Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes  
Type: Application

12. Voters are making a choice to spend money on three projects: a dam, a school, or a road. In the choice between the dam and the school, the majority favours the school. In a choice between a dam and a road, the majority favours a dam. In a choice between a road and a school, the majority favours a road. These rankings indicate that majority voting may:

- A) result in economically efficient outcomes because of rent-seeking behaviour.
- B) reflect irrational preferences.
- C) produce inconsistent choices.
- D) lead to consistent choices in spite of irrational community preferences.

Ans: C Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes  
Type: Application

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13. Suppose three roommates cannot agree on the size of a pizza to order. Domino argues for a medium pizza, Godfather contends a large pizza will be needed, and Shakey wants a super-large pizza. Assuming no paradox of voting, majority voting will result in a decision to order:
- A) a medium pizza.
  - B) a large pizza.
  - C) a super-large pizza.
  - D) two medium pizzas.

Ans: B Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes Type: Application

14. Majority voting fails to incorporate the strength of the preferences of the individual voter and therefore:
- A) reduces the power of the median voter.
  - B) is the primary reason for public sector failure.
  - C) may produce economically inefficient outcomes.
  - D) creates the opportunity for the fallacy of limited decisions.

Ans: C Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Subtopic: Inefficient voting outcomes Type: Application

15. The political technique called logrolling:
- A) can increase economic efficiency.
  - B) can decrease economic efficiency.
  - C) involves trading votes to secure favourable outcomes which otherwise would be rejected.
  - D) entails all of the above.

Ans: D Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 375 Subtopic: Interest groups and logrolling Type: Application

16. The trading of votes to secure favourable outcomes on decisions which would otherwise be adverse is called:
- A) median-voter trading.
  - B) the special-interest effect.
  - C) political logrolling.
  - D) the paradox of voting.

Ans: C Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 375 Subtopic: Interest groups and logrolling Type: Definition

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17. Inefficiencies associated with majority voting may get resolved through:

- A) using the median-voter model.
- B) bureaucratic inefficiency.
- C) the paradox of voting.
- D) political logrolling.

Ans: D Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 375 Subtopic: Interest groups and logrolling  
Type: Application

18. Which would be an avenue for resolving the inefficiencies associated with majority voting?

- A) political logrolling
- B) progressive taxation
- C) proportional taxation
- D) the paradox of voting

Ans: A Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 375 Subtopic: Interest groups and logrolling  
Type: Application

19. Which would be an avenue for resolving the inefficiencies associated with majority voting?

- A) the paradox of voting
- B) progressive taxation
- C) proportional taxation
- D) special interest groups

Ans: D Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 375 Subtopic: Interest groups and logrolling  
Type: Application

20. A situation in which society may not be able to rank its preferences consistently through majority voting refers to:

- A) logrolling.
- B) the paradox of voting.
- C) the median-voter model.
- D) the special-interest effect.

Ans: B Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 375 Subtopic: Paradox of voting Type: Definition

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21. The principle that under some circumstances majority voting fails to make consistent choices reflecting the community's underlying preference is best demonstrated by:

- A) the paradox of voting.
- B) the concept of logrolling.
- C) the median-voter model.
- D) the Coase theorem.

Ans: A Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 375-376 Subtopic: Paradox of voting Type: Definition

22. According to the paradox of voting:

- A) public goods which cost more than the total benefits they confer may get produced under majority voting.
- B) trading of votes may either add to or subtract from economic efficiency.
- C) the median voter decides what public goods all voters should have.
- D) majority voting fails under some circumstances to make consistent choices which reflect the community's underlying preferences.

Ans: D Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 376 Subtopic: Paradox of voting Type: Definition

23. The information contained in the above table illustrates:

- A) political logrolling.
- B) the median-voter model.
- C) the paradox of voting.
- D) the Coase theorem.

Ans: C Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 376 Subtopic: Paradox of voting Type: Application

24. The median-voter model implies that:

- A) political voting will be as economically efficient as "dollar voting" in competitive markets.
- B) all voters have about the same preferences for various public goods and services.
- C) many people will be dissatisfied with the size of government in the economy.
- D) with majority voting there can never be a consistent ordering of public good preferences.

Ans: C Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 377 Subtopic: Median-voter model Type: Application



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25. The median-voter model implies that a political office seeker will:
- A) adopt more extreme views when seeking his or her party's nomination than when running against the other party's opponent.
  - B) adopt less extreme views when seeking his or her party's nomination than when running against the other party's opponent.
  - C) favour extensive government spending because demand curves for public goods are added vertically rather than horizontally.
  - D) favour the private resolution of externality problems rather than governmental intervention.

Ans: A Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 377 Subtopic: Median-voter model Type: Application

26. It is observed that the person representing the middle position on an issue will most likely determine the outcome of an election. This view is most closely associated with the:
- A) fallacy of limited decisions.
  - B) special-interest effect.
  - C) paradox of voting.
  - D) median-voter model.

Ans: D Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 377 Subtopic: Median-voter model Type: Definition

27. When voters have different opinions about an issue, the position that is most likely to be adopted is that of the:
- A) lobbyist.
  - B) logroller.
  - C) rent-seeker.
  - D) median voter.

Ans: D Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 377 Subtopic: Median-voter model Type: Application

28. The median-voter model indicates that political parties will:
- A) target only those voters who can be influenced by rent-seeking.
  - B) direct their work to voters who can be influenced by special interests.
  - C) campaign at one end of the distribution of voter sentiments.
  - D) try to appeal to the sentiments of the median voter.

Ans: D Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 377-378 Subtopic: Median-voter model Type: Definition

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29. Assume that voters are asked to vote for either more police protection or more schools in a community. More schools are likely to win if:
- A) there is a paradox of voting.
  - B) median voters prefer that choice.
  - C) voters are ill-informed about the choice.
  - D) there is revealed preference through voting.

Ans: B Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 377-378 Subtopic: Median-voter model Type: Application

30. Some people argue that the three main foreign television networks all have similar programming. If true, this observation might best be explained by the:
- A) paradox of voting.
  - B) median-voter model.
  - C) law of diminishing marginal utility.
  - D) ability-to-pay principle.

Ans: B Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 377-378 Subtopic: Median-voter model Type: Application

Use the following to answer questions 31-33:

The following table shows the total costs and total benefits facing a city of five different potential domed stadiums of increasing size. All figures are in millions of dollars.

<b><u>Stadium</u></b>	<b><u>Total cost</u></b>	<b><u>Total benefit</u></b>
A	\$80	\$140
B	100	200
C	130	250
D	165	290
E	220	300

31. Refer to the table. Suppose a five-person city council must decide via majority voting which of these stadiums to build. Also suppose that each of the stadium sizes has the support of one council member. According to the median-voter model, the council will ultimately vote in favour of stadium:
- A) A.
  - B) B.
  - C) C.
  - D) D.

Ans: C Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 377-378 Subtopic: Median-voter model Type: Application

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32. Refer to the table. The marginal cost and marginal benefit of stadium B are:

- A) \$20 million and \$50 million, respectively.
- B) \$100 million and \$200 million, respectively.
- C) \$30 million and \$50 million, respectively.
- D) \$20 million and \$60 million, respectively.

Ans: D Level: Moderate Main Topic: 16.1 Revealing preferences through majority voting Page: 377-378 Subtopic: Median-voter model Type: Calculation

33. Refer to the table. Based on cost-benefit analysis, the city should:

- A) not build any of these stadiums.
- B) build stadium E.
- C) build stadium C.
- D) build stadium D.

Ans: D Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 377-378 Subtopic: Median-voter model Type: Application

34. "Pork-barrel" legislation is an example of:

- A) the paradox of voting.
- B) special interest effect
- C) the benefits-received principle.
- D) the Coase theorem.

Ans: B Level: Easy Main Topic: 16.2 Government failure Page: 378 Subtopic: Special interest and rent seeking Type: Definition

35. A special-interest issue may be defined as one whose passage yields:

- A) large private benefits compared to external benefits.
- B) large external benefits compared to private benefits.
- C) small economic losses to a small number of people and large economic losses to a large number of people.
- D) large economic gains to a small number of people and small economic losses to a large number of people.

Ans: D Level: Easy Main Topic: 16.2 Government failure Page: 378 Subtopic: Special interest and rent seeking Type: Definition

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36. The special-interest effect is significant because:

- A) it corrects instances of spillover costs and benefits.
- B) it can contribute to economic inefficiency in the public sector.
- C) capitalistic economies are based upon the pursuit of self-interest.
- D) it causes quantity demanded to equal quantity supplied in competitive markets.

Ans: B Level: Easy Main Topic: 16.2 Government failure Page: 378  
Subtopic: Special interest and rent seeking Type: Application

37. What is a likely explanation for why the budget of a government agency might increase beyond its optimal size?

- A) the paradox of voting
- B) the influence of the median voter
- C) the power of special-interest groups
- D) the allocative efficiency of government

Ans: C Level: Easy Main Topic: 16.2 Government failure Page: 378  
Subtopic: Special interest and rent seeking Type: Application

38. Which one of the following topics would be of most interest to a public choice economist?

- A) the theory of comparative advantage
- B) the law of increasing opportunity cost
- C) inflation and unemployment
- D) rent-seeking behaviour

Ans: D Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Special interest and rent seeking Type: Application

39. Suppose Canadian winemakers convince the federal government to issue a directive to serve only domestically produced wine at government functions. This would be an example of:

- A) nonselectivity.
- B) the Coase theorem.
- C) logrolling.
- D) rent-seeking behaviour.

Ans: D Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Special interest and rent seeking Type: Application

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40. The pursuit through government of a transfer of wealth at someone else's expense refers to:

- A) logrolling.
- B) rent-seeking behaviour.
- C) the paradox of voting.
- D) the median-voter model.

Ans: B Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Special interest and rent seeking Type: Definition

41. Economists call the pursuit of a transfer of wealth through government at someone else's expense:

- A) the paradox of voting.
- B) the Coase theorem.
- C) rent-seeking behaviour.
- D) the benefits-received principle.

Ans: C Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Special interest and rent seeking Type: Definition

42. Actions that groups take to seek government legislation that gives tax breaks to specific corporations would best be an example of:

- A) how the median-voter model works.
- B) how political choices are bundled.
- C) rent-seeking behaviour.
- D) the paradox of voting.

Ans: C Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Special interest and rent seeking Type: Application

43. Public choice theorists hold that politicians will:

- A) favour programs entailing immediate and clear-cut costs and vaguely defined or deferred benefits.
- B) follow policies leading to an optimal allocation of resources between public and private sectors.
- C) favour programs entailing immediate and clear-cut benefits and vaguely defined or deferred costs.
- D) objectively weigh the costs and benefits of various government programs and vote accordingly.

Ans: C Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Clear benefits, hidden costs Type: Application

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44. Vote-seeking politicians will not weigh objectively all the costs and benefits of various programs in deciding which to support and which to reject. As a result:
- A) politicians might reject economically justifiable programs.
  - B) politicians might reject programs that are economically irrational.
  - C) politicians are indifferent between economical and irrational projects.
  - D) politicians only accept irrational programs.

Ans: A Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Clear benefits, hidden costs Type: Application

45. "When parliamentary members vote on an appropriations bill, they must vote yea or nay, taking the bad with the good." This statement best reflects the:
- A) paradox of voting.
  - B) special-interest effect.
  - C) benefits-received principle.
  - D) idea of limited and bundled choice.

Ans: D Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Limited and bundled choice Type: Application

46. Unlike consumers in the market place, members of the parliament:
- A) are selective .
  - B) cannot be selective.
  - C) will vote for every single item of spending separately.
  - D) are irrational.

Ans: B Level: Easy Main Topic: 16.2 Government failure Page: 379  
Subtopic: Limited and bundled choice Type: Application

47. Public choice theorists contend that:
- A) government can efficiently correct instances of market system failure.
  - B) the existence of benefit-cost analysis has brought about the efficient use of resources in the public sector.
  - C) public bureaucracies are inherently more efficient than private enterprises.
  - D) public bureaucracies are inherently less efficient than private enterprises.

Ans: D Level: Easy Main Topic: 16.2 Government failure Page: 380  
Subtopic: Bureaucracy and inefficiency Type: Application

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48. Public choice theorists contend public bureaucracies are inefficient primarily because:
- A) the value of public goods is more easily measured than is the value of private goods.
  - B) of the absence of competitive market pressures.
  - C) public sector workers are more security-conscious than are private sector workers.
  - D) relatively low pay in government attracts workers of lesser quality.

Ans: B Level: Easy Main Topic: 16.2 Government failure Page: 380  
Subtopic: Imperfect institutions Type: Application

49. It is sometimes difficult to determine whether a particular activity can be performed with greater success in the private and or public sectors. This happens because:
- A) the market system and public agencies are both perfect.
  - B) the market system and public agencies are both imperfect.
  - C) the market system is perfect but the public agencies are imperfect.
  - D) the public agencies are perfect but the market system is imperfect.

Ans: B Level: Easy Main Topic: 16.2 Government failure Page: 380  
Subtopic: Imperfect institutions Type: Application

50. Which of the following is an example of the benefits-received principle of taxation?
- A) cigarette taxes
  - B) gasoline taxes
  - C) sales taxes
  - D) federal personal income taxes

Ans: B Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 381  
Subtopic: Benefits received versus ability to pay Type: Application

51. The benefits-received principle of taxation is most evident in:
- A) inheritance taxes.
  - B) excise taxes on gasoline.
  - C) the personal income tax.
  - D) the corporate income tax.

Ans: B Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 381  
Subtopic: Benefits received versus ability to pay Type: Application

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52. If government levies a tax or fee on hunting licenses and uses the resulting revenue for wildlife stocking programs, this would be an example of:
- A) a progressive tax.
  - B) a regressive tax.
  - C) the ability-to-pay principle of taxation.
  - D) the benefits-received principle of taxation.

Ans: D Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 381 Subtopic: Benefits received versus ability to pay Type: Application

53. A Federal tax of \$1 per month per telephone line would be an example of:
- A) a progressive income tax.
  - B) a proportional income tax.
  - C) the ability-to-pay principle of taxation.
  - D) the benefits-received principle of taxation.

Ans: D Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 381 Subtopic: Benefits received versus ability to pay Type: Application

54. The ability-to-pay principle of taxation:
- A) has been declared illegal because it deprives one of property without "due process of law."
  - B) suggests that one should pay taxes in proportion to the benefits one derives from public goods and services.
  - C) suggests that taxes should vary directly with one's income and wealth.
  - D) suggests that taxes should vary inversely with one's income and wealth.

Ans: C Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 381  
Subtopic: Benefits received versus ability to pay Type: Definition

55. The rationale for ability-to-pay taxation and the contention that those with large incomes should pay more taxes both absolutely and relatively is that:
- A) high-income receivers are generally in a better position to shift taxes than are low-income receivers.
  - B) the transfer system is regressive and it is therefore essential to have an offsetting progressive tax structure.
  - C) rational consumers spend their first dollars of income on the most urgently desired goods and successive dollars on less essential goods.
  - D) taxes should be paid for financing public goods in direct proportion to the satisfaction an individual derives from these goods.

Ans: C Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 381-382 Subtopic: Benefits received versus ability to pay Type: Application



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56. Which of the following statements is most consistent with the benefits-received principle of taxation?

- A) A childless couple should not be required to pay taxes for the support of public schools.
- B) Prosperous corporations should pay substantial taxes even if they use few government goods and services.
- C) The best tax is the income tax.
- D) People with high incomes should pay more taxes than people with low incomes.

Ans: A Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Benefits received versus ability to pay Type: Application

57. Which of the following best reflects the ability-to-pay philosophy of taxation?

- A) a tax on residential property
- B) a progressive income tax
- C) an excise tax on gasoline
- D) an excise tax on coffee

Ans: B Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Progressive, proportional, and regressive taxes Type: Application

58. Using income as the tax base, which of the following is a regressive tax?

- A) the federal inheritance tax
- B) a 6 percent general sales tax
- C) the corporate income tax
- D) the personal income tax

Ans: B Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Application

Use the following to answer questions 59-61:

The following five schedules represent various aggregate income tax schedules. Figures are all in billions of dollars.

<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>					
Base	Base	Base	Base	Base					
<u>Tax</u>	<u>(income)</u>	<u>Tax</u>	<u>(income)</u>	<u>Tax</u>	<u>(income)</u>	<u>Tax</u>	<u>(income)</u>	<u>Tax</u>	<u>(income)</u>
\$30	\$100	\$10	\$100	\$5	\$100	\$30	\$100	\$10	\$100
50	200	20	200	15	200	60	200	30	200
60	300	30	300	30	300	90	300	60	300
70	400	40	400	50	400	120	400	100	400

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59. Which of the schedules represent(s) a progressive tax?

- A) V only
- B) III and V
- C) II and III
- D) III only

Ans: B Level: Difficult Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

60. Which of the schedules represent(s) a regressive tax?

- A) V only
- B) III and V
- C) IV only
- D) I only

Ans: D Level: Difficult Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

61. Which of the schedules represent(s) a proportional tax?

- A) II and IV
- B) III and V
- C) IV only
- D) I only

Ans: A Level: Difficult Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

62. A tax which takes a larger proportion of income from low-income groups than from high-income groups is a:

- A) stabilizing tax.
- B) regressive tax.
- C) progressive tax.
- D) proportional tax.

Ans: B Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Progressive, proportional, and regressive taxes Type: Definition

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63. A proportional tax means that someone earning \$30,000 would pay:
- A) just as much tax as someone earning \$10,000.
  - B) just as much tax in percentage terms as someone earning \$10,000.
  - C) a proportionally higher tax than someone who has a lower income.
  - D) a proportionally higher tax on a higher income than someone who has a lower income.

Ans: B Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Progressive, proportional, and regressive taxes Type: Application

64. A regressive tax means that if someone earning \$25,000 pays \$5,000, someone earning \$50,000 must pay:
- A) less than \$5,000.
  - B) less than \$10,000.
  - C) more than \$10,000 but less than \$15,000.
  - D) more than \$15,000 but less than \$20,000.

Ans: B Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

65. If someone earning \$10,000 pays \$1,000 in taxes and someone earning \$20,000 pays \$3,000, this tax must be:
- A) progressive.
  - B) regressive.
  - C) proportional.
  - D) fair.

Ans: A Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

66. A person whose income has increased from \$10,000 to \$20,000 finds that her Federal marginal tax rate has increased from 18 percent to 22 percent. This is an example of a:
- A) regressive tax.
  - B) progressive tax.
  - C) proportional tax.
  - D) fair tax.

Ans: B Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

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67. If the marginal tax rate is 20 percent on \$15,000 and 15 percent on \$20,000, the tax structure is:

- A) progressive.
- B) regressive.
- C) proportional.
- D) unfair.

Ans: B Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

68. If each taxpayer paid the same lump-sum amount regardless of income level, the tax system would be:

- A) disproportionate.
- B) progressive.
- C) proportional.
- D) regressive.

Ans: D Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Progressive, proportional, and regressive taxes Type: Definition

Use the following to answer questions 69-72:

The following represents four tax schedules for the given taxable income base.

<u>Income</u>	<u>Tax A</u>	<u>Tax B</u>	<u>Tax C</u>	<u>Tax D</u>
\$10,000	\$ 650	\$1,000	\$ 500	\$1,000
20,000	850	2,000	1,000	3,000
30,000	950	4,000	1,500	6,000
40,000	1,050	6,000	2,000	9,500

69. Which of the tax schedules is only a progressive tax schedule?

- A) A
- B) B
- C) C
- D) D

Ans: D Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

## Chapter 16 Public Choice Theory and the Economics of Taxation

70. Which of the above tax schedules is only a proportional tax schedule?

- A) A
- B) B
- C) C
- D) D

Ans: C Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

71. Which of the above tax schedules is only a regressive tax schedule?

- A) A
- B) B
- C) C
- D) D

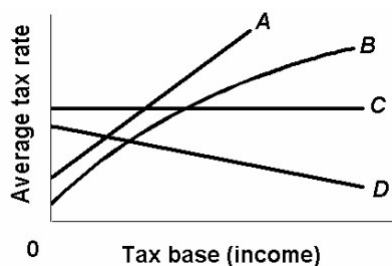
Ans: A Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

72. Which of the tax schedules is partially proportional and partially progressive?

- A) A
- B) B
- C) C
- D) D

Ans: B Level: Difficult Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

Use the following to answer questions 73-75:



## Chapter 16 Public Choice Theory and the Economics of Taxation

73. Which of the lines in the diagram represent(s) a progressive tax?

- A) both A and B.
- B) D only.
- C) C only.
- D) B only.

Ans: A Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes Type: Graphic

74. Which of the lines in the diagram represent(s) a proportional tax?

- A) both A and B.
- B) D only.
- C) C only.
- D) B only.

Ans: C Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Progressive, proportional, and regressive taxes Type: Graphic

75. Which of the lines in the diagram represent(s) a regressive tax?

- A) both A and B.
- B) D only.
- C) C only.
- D) B only.

Ans: B Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Progressive, proportional, and regressive taxes Type: Graphic

76. Assume you pay a tax of \$4000 on a taxable income of \$24,000. If your taxable income were \$30,000, your tax payment would be \$5000. This suggests that the tax is:

- A) progressive.
- B) proportional.
- C) regressive.
- D) discriminatory.

Ans: B Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Subtopic: Progressive, proportional, and regressive taxes  
Type: Calculation

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77. Consider the following data which describe the relationship between income and the tax:

Income	Taxes
\$ 20,000	\$ 3,400
16,000	3,000
12,000	2,400
8,000	1,600
4,000	800

This tax may be best described as:

- A) regressive at lower income levels and progressive at higher income levels.
- B) regressive at lower income levels and proportional at higher income levels.
- C) proportional at lower income levels and regressive at higher income levels.
- D) proportional at lower income levels and progressive at higher income levels.

Ans: C Level: Difficult Main Topic: 16.3 Apportioning the tax burden Page: 382  
Subtopic: Progressive, proportional, and regressive taxes Type: Calculation

78. The sales tax is a regressive tax because the:

- A) percentage of income paid as taxes falls as income rises.
- B) administrative costs associated with the collection of the tax are relatively high.
- C) percentage of income paid as taxes is constant as income rises.
- D) tax tends to reduce the total volume of consumption expenditures.

Ans: A Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 383 Subtopic: Progressive, proportional, and regressive taxes  
Type: Application

79. The general sales tax is regressive because:

- A) the incidence of the tax is upon sellers rather than buyers.
- B) tax rates are constant and incomes are variable.
- C) lower income families pay a larger percentage of their incomes as sales tax.
- D) tax rates decrease as consumer spending decreases.

Ans: C Level: Difficult Main Topic: 16.3 Apportioning the tax burden  
Page: 383 Subtopic: Progressive, proportional, and regressive taxes  
Type: Application

## Chapter 16 Public Choice Theory and the Economics of Taxation

80. Most economists believe that property taxes:

- A) should be eliminated.
- B) are progressive.
- C) are regressive.
- D) should become an important source of revenue for the Federal government.

Ans: C Level: Easy Main Topic: 16.3 Apportioning the tax burden Page: 383  
Subtopic: Progressive, proportional, and regressive taxes Type: Application

81. Rent-seeking behaviour is:

- A) the actions by government to gain special benefit from individuals.
- B) the action by government to give a benefit to the unions.
- C) the actions by persons, firms, or unions to gain special benefits from government at tax-payers' or someone else's expense.
- D) the action of the landlord to demand a payment from the tenant.

Ans: C Level: Moderate Main Topic: Last Word Page: 384 Type: Definition

82. The 19<sup>th</sup> century French economist, Fredric Bastiat has ridiculed the action of rent seeking by using the following phrase:

- A) rent seeking is the actions by government to gain special benefit from individuals.
- B) When rent seekers succeed, it is often at the expenses of their private interest.
- C) rent seeking is an illegal activity.
- D) When rent seekers succeed, it is often at the expenses of the general interest.

Ans: D Level: Moderate Main Topic: Last Word Page: 384 Type: Definition

83. Majority voting assures that government will provide a public good if it yields total benefits in excess of total costs.

Ans: False Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 374-375 Type: Application

84. Logrolling can either increase or diminish economic efficiency.

Ans: True Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 375 Type: Application

85. The paradox of voting is that under majority voting rules the median-voter decides the election outcome.

Ans: False Level: Easy Main Topic: 16.1 Revealing preferences through majority voting Page: 377 Type: Definition



## Chapter 16 Public Choice Theory and the Economics of Taxation

86. The pursuit through government of a transfer of wealth at someone else's or society's expense is called "rent seeking."

Ans: True Level: Easy Main Topic: 16.2 Government failure Page: 378  
Type: Definition

87. The benefits-received principle of taxation is used to support corporate and personal income taxes.

Ans: False Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 381 Type: Application

88. The benefits-received principle of taxation supports the case for highly progressive taxation.

Ans: False Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 381 Type: Application

89. If you pay a \$1000 tax on \$10,000 of taxable income and a \$3000 tax on a taxable income of \$16,000, the tax is progressive.

Ans: True Level: Moderate Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Type: Calculation

90. A truly progressive tax takes relatively more from the rich than it does from the poor.

Ans: True Level: Easy Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Type: Application

91. The federal tax system is highly regressive.

Ans: False Level: Easy Main Topic: 16.3 Apportioning the tax burden  
Page: 382 Type: Application

92. Sales taxes are proportional in relation to income because the same tax rate applies regardless of the size of a purchase.

Ans: False Level: Difficult Main Topic: 16.3 Apportioning the tax burden  
Page: 383 Type: Application

93. Sales taxes on consumer goods are regressive because poor people consume a larger proportion of their incomes than do rich people.

Ans: True Level: Difficult Main Topic: 16.3 Apportioning the tax burden  
Page: 383 Type: Application