

Short Answer Questions

Chapter 12.

1. Explain the difference between a direct and an indirect tax.
2. Would an indirect tax levied on every good and service bought be a fairer way of raising tax revenue than the existing system in many countries which relies heavily on direct taxes?
3. Spending on health services in many countries has increased over the last 50 years as a proportion of GDP. Why do you think this is?
4. Explain the difference between a government budget deficit and a budget surplus.
5. Is a growing budget deficit always a sign of problems in an economy? Explain your answer.
6. Using examples in each case, explain the difference between a progressive, regressive and proportional tax system.
7. Glen earns €50 000 a year and pays €7 500 in tax. Miek earns €18 000 and pays €2 700 in tax. Suki earns €75 000 and pays €11 250 in tax. Is this a progressive tax system? Explain.
8. Adam Smith argued that taxes should have four key attributes or canons; they should be convenient, based on the ability to pay, certain and efficient. Explain what is meant by each of these four 'canons'.
9. Explain the difference and relevance of marginal and average tax rates. Use examples to illustrate your answer.
10. Discuss some of the factors that governments have to consider in balancing the trade-off between equity and efficiency in formulating tax policy. You should use examples from your own country to help illustrate your answer.