

## Short Answer Questions

### Chapter 8.

1. Explain the meaning of the term 'deadweight loss'.
2. A government is planning to impose a tax to raise revenue to offset its budget deficit. With reference to price elasticity of demand outline what type of good the government should levy the tax on if it wants to maximise revenue and reduce deadweight loss to a minimum.
3. Lars works for Astrid providing accounting advice. He is called in on a regular basis to help Astrid with her tax matters and on average is paid €500 a month. Astrid values this advice at €600 a month and the opportunity cost for Lars of providing this service is €450 a month. The government are thinking of levying a tax on the provision of accounting advice. What is the maximum equivalent tax per month that could be levied without affecting the transaction between Lars and Astrid?
4. Explain why the price elasticities of demand and supply determine the size of any deadweight loss as a result of the imposition of a tax on sellers (or buyers). Use diagrams to illustrate your answer where appropriate.
5. Why do economists disagree about the effect of a labour tax?
6. Is there any evidence that the Laffer curve has any practical application in real life? Explain your answer.
7. Can any government ever take into consideration all of the effects of taxation? Explain your answer and use examples to highlight the points you make.
8. Assume that the supply of wheat is more price inelastic than the supply of tobacco. Which would bring about a larger deadweight loss, a tax on wheat or a tax on tobacco? Explain your answer and use diagrams to illustrate where appropriate.
9. Taxes distort market behaviour and outcomes. Is this always detrimental? Explain your answer and use examples where appropriate.
10. A government imposes a congestion charge on vehicles coming into city centres which leads to a 15 per cent reduction in the number of vehicles on the road. Is it safe to say that welfare has been improved? Explain your answer.