

UNIVERSITY COLLEGE LONDON

EXAMINATION FOR INTERNAL STUDENTS

MODULE CODE : ECON7008

ASSESSMENT : ECON7008A
PATTERN

MODULE NAME : Economics of Tax Policy

DATE : 10 May 2016

TIME : 2:30 pm

TIME ALLOWED : 2 hours

This paper is suitable for candidates who attended classes for this module in the following academic year(s):

2015/16

SUMMER TERM 2016
ECON7008: ECONOMICS OF TAX POLICY

TIME ALLOWANCE: 2 hours

Answer 4 (out of 8) questions from Part A and the 1 compulsory question in Part B.

Questions in Part A carry 12.5 per cent of the total mark each and the Part B question carries 50 per cent of the total mark.

In cases where a student answers more questions than requested by the examination rubric, the policy of the Economics Department is that the student's first set of answers up to the required number will be the ones that count (not the best answers). All remaining answers will be ignored.

PART A

Answer 4 questions from this section.

- A.1 In some countries, for a married couple the income of the husband and the wife is taxed separately while in other countries their income is added and the total combined income is taxed. Discuss efficiency and equity considerations of these different approaches to taxation of the incomes of married couples under a progressive taxation system. Refer to appropriate real world examples.
- A.2 Use a monopoly model to show how a unit tax on output can lead to a price increase which is larger than the size of the tax implemented. Explain the intuition behind and implications of this outcome.
- A.3 What is meant by the Earned Income Tax Credit (EITC) in the USA? Use an economic model to explain the likely effects of the EITC on labour supply. In your answer clearly state the assumptions you are making. Could the policy effect on total work effort be in the opposite direction to the effect on labour force participation? Explain your answer.
- A.4 What is meant by rent seeking behaviour at the top of the income distribution? Briefly summarise how rent seeking activity may provide an argument for higher taxation of high income earners and critically discuss this claim.
- A.5 Summarise how the UK inheritance tax system works. What are the main arguments against its current design?
- A.6 What is meant by time-inconsistent preferences? Discuss their relevance in designing optimal tax policy. Support your answer by referring to a concrete example of 'sinful' consumption, such as the consumption of cigarettes, alcohol or fattening food.

A.7 What is meant by VAT carousel fraud and how does it work? In your answer first describe how the collection of VAT works and then explain the logic behind carousel fraud. Discuss a policy measure to eliminate such kind of fraud.

A.8 Explain, using the appropriate graphs, what is meant by the double dividend of environmental taxation and summarise the empirical support for this theory.

PART B

Answer the ONE compulsory question from this section.

B.1 Income tax systems vary significantly across countries. In this question you are asked to draw on the WIKI group activity you worked on throughout the term as well as on the related course material.

- (a) Describe the main features of the income tax system (including social security contribution if applicable) in one of the following countries: Australia, Brazil, Canada, Chile, Czech Republic, Germany, Iceland, Indonesia, Luxembourg, Mexico, New Zealand, South Africa.
- (b) Contrast the income tax system of your chosen country with the income tax system in the United Kingdom. Where can you see similarities? How are the two systems different?
- (c) Economists sometimes disagree on the most appropriate 'base for taxation'. Briefly explain what are the possible options to use as tax base. Using the appropriate models introduced in this course discuss some advantages and disadvantages of these different options. What do you think should be used as the predominant tax base and why?

- (d) For the country you have chosen in (a)

EITHER

- i. describe a past or current income tax reform and discuss how its design scores in terms of economic optimality;

OR

- ii. propose an income tax policy to improve the current design. Carefully explain your proposal.