

GUIDED READING Activity 9-1

For use with textbook pages 229–236

THE ECONOMICS OF TAXATION

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Economic Impact of Taxes

A. Resource Allocation—What can happen to the factors of production when prices go up as an end result of taxation?

B. Behavior Adjustment—What is a sin tax and what is it usually applied to?

C. Productivity and Growth—What effect might taxes have on productivity and economic growth?

D. Incidence of a Tax—What situation must exist to make it easier for a producer to shift the incidence of a tax to the consumer?

II. Criteria for Effective Taxes

A. Equity—What criteria is generally recognized as making taxes fairer?

B. Simplicity—What makes taxes more tolerable to many people?

C. Efficiency—What are two criteria for making a tax efficient?

III. Two Principles of Taxation

A. Benefit Principle—What is the benefit principle of taxation?

B. Ability-to-Pay Principle—What two factors is the ability-to-pay principle based on?

IV. Three Types of Taxes

A. What three general types of taxes exist in the United States?

B. What is a marginal tax rate?
