

Second exam ECON3620/ECON4620, spring 2020

Each of the 3 problems counts as 33%.

1. Norwegian policy-makers are considering increasing the VAT on food from 15% to the standard rate of 25%.
 - i. Present a theoretical framework that explains under which conditions producers and consumers bear the burden of the increase in the tax.
 - ii. Now, the VAT change is introduced in a tax system in which income taxation is already optimally set. Use some key results from the optimal tax literature to discuss this move (increased indirect taxation).
2. Means testing of the child benefit is a question that is discussed repeatedly in Norway.
 - i. Explain how the child benefit schedule of Norway today (no means testing) influences the labor supply of the recipient, and how a means tested schedule changes this. You may explain by using graphs.
 - ii. What are the main arguments for and against the move towards means testing the child benefit?
3. The personal income tax system of Norway is characterized as a dual income tax system.
 - i. Explain what characterizes a dual income tax schedule and how its design answers to some of the key results of optimal taxation.
 - ii. Discuss what is meant when it is claimed that taxation of small businesses is the Achilles heel (a weak point) of the dual income tax system. Explain how the pattern seen for dividends in the graph (below) is informative about this weakness.

