

Problem Set 6

On what and how to submit

- For this and all future problem sets, questions are from the “Problems” section of the questions at the end of the chapter.
- Due before Lecture 7 to your Box folder
- Name the file “ps06-[lastname].[extension]”. For example, my file would be “ps06_brooks.pdf”.
- You do not need to type your submission. Any **legible** submission is ok. For example, you can write the problem set with hand-drawn graphs, take a picture, and submit the picture.

1. Gruber Chapter 19, Question 2

Assume that the statutory incidence falls upon the consumer.

2. Gruber Chapter 19, Question 3

3. New EV Tax Credit

As part of the recently passed Inflation Reduction Act, there is a \$7,500 dollar tax credit for US citizens for the purchase of electric vehicles. Think of this credit as a negative tax. For purposes of this problem, we assume that the supply of new cars is relatively more inelastic than the demand for new cars. Given this, explain whether you expect the price of electric cars to increase by the full amount of the tax. Who is likely to bear the incidence of this tax credit?

For purposes of this problem, think of the quantity along the horizontal axis as the units of “car services” you are buying – the niceness of the ride, the infrequency of the maintenance, etc.