

Problem Set 7
Due Lecture 8

On what and how to submit

- Due before Lecture 8.
- Name the file “ps07_[lastname].pdf”. For example, my file would be “ps07_brooks.pdf”.
- Turn in via this [google survey](#).
- Make sure your name is at the top of the submission.
- You do not need to type your submission. Any **legible** submission in pdf format is ok. For example, you can write the problem set with hand-drawn graphs, take a picture, make a pdf, and submit the pdf.

1. Gruber Chapter 19, Question 2
2. Gruber Chapter 19, Question 3
3. New EV Tax Credit

The Inflation Reduction Act included 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.