

ECON3080 Economic Policy Analysis II
Spring Semester 2020/21
Public Finance Practice Essay
Dario Tortarolo

Answer one of the two questions below. *Word limit: 500 words.* Please submit your essay as a Microsoft Word file via the module webpage *before 3pm GMT on Monday 17 May.*

1. Read the following article from The Guardian about the “60% marginal tax rate trap”. Write a short essay explaining in your own words how the **£100,000 high-earner tax trap** discussed in the article might affect the behavioural responses of individuals in light of the analytical framework covered in class. Be as precise as possible (e.g., make use of key technical terms) and feel free to reference any paper covered in class that you deem relevant (the mark is not based on whether you agree or not with the article but how well you can put the arguments in perspective based on what you learned in class).

Article’s link: [click here](#).

2. A complete analysis of effective tax rates must combine the implicit tax rates in the benefit system, the tax credit system, and the income tax system. There are two key concepts to describe the incentives faced by individuals: the effective marginal tax rate (EMTR) - that is, the proportion of a small increase in earnings taken in tax and withdrawn benefits - and the participation tax rates (PTR) – that is, the proportion of total earnings taken in tax and withdrawn benefits in work relative to being out of work. The figure below depicts a typical budget constraint for a low-income single parent in the UK. Assume that all the benefits are accessed when eligible. Write a short essay explaining how this schedule might affect the behavioural responses of individuals over the range of gross weekly earnings (x-axis).

