

## Tax System

**Tax base:** measure or value that determines how much tax an individual or firm pays

**Tax structure:** how the tax depends on the tax base

Some important taxes:

**Income tax:** tax depends on income of an individual or family from wages & investment

10x 2/2/6N

**Payroll tax:** a tax that depends on the earnings an employer pays to an employee

**Sales tax (excise tax):** tax depends on the value of goods sold

**Profits tax:** tax depends on a firm's profits

**Property tax:** tax depends on the value of property

**Wealth tax:** tax depends on an individual's wealth.

Bealoff tax: or tax flat

Proportional tax : flat tax

Progressive tax : a tax  
that rises more than in  
proportion to income

Regressive tax : a tax that  
rises less than in  
proportion to income

U.S. tax system : somewhat  
progressive

personal income tax :  
strongly progressive

payroll tax (except  
Medicare portion)  
somewhat regressive

Sales tax: regressive

state & local taxes

(e.g. driver license fees)

regressive

Taxes % of GDP 2009

U.S. 25.5% 24.0%

Japan 26.4%

Canada 33.5% 31.3%

Britain 36.0% 34.3%

France 43.4% 41.9%

Sweden 50.4% 46.4%

## Ch 8 International Trade

Imports: Goods and services purchased from other countries

Exports: Goods and services sold to other countries

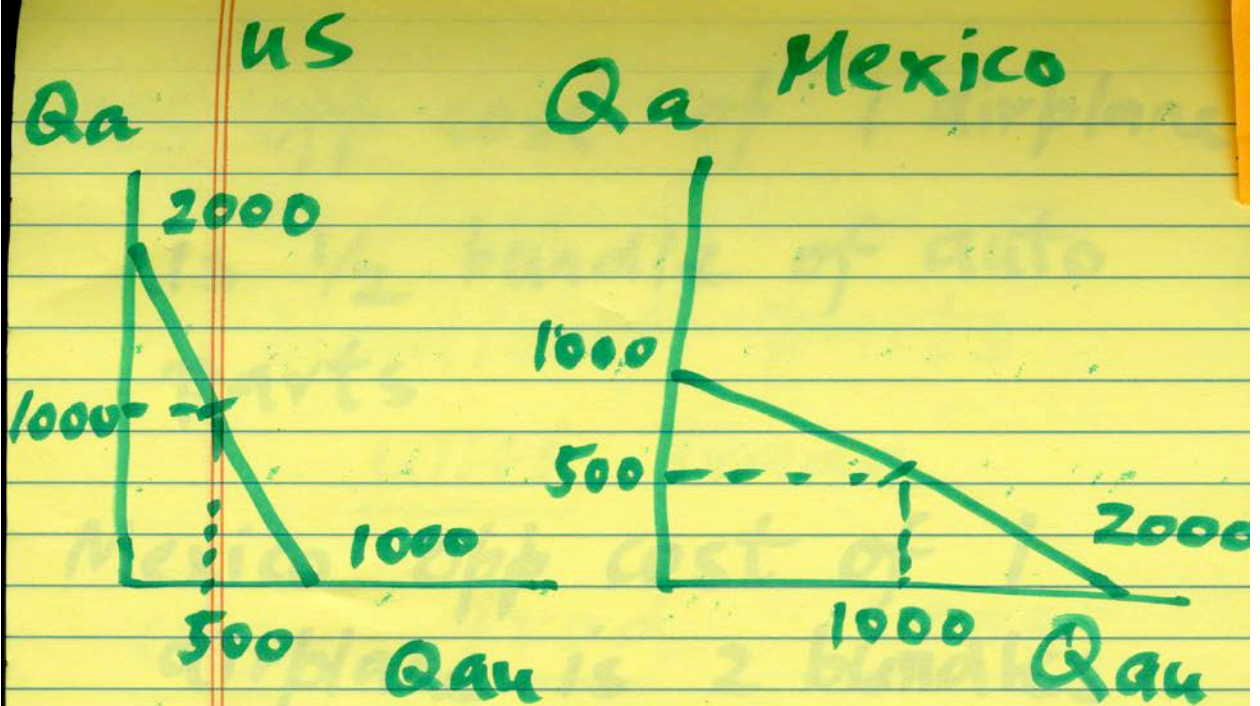
Globalization: phenomenon of growing economic linkages among countries

## Comparative advantage, again

A country has a comp. advantage in producing a good if the opportunity cost of producing the good is lower for that country than for other countries

## Ricardian model

- assumes opportunity costs constant
- st. line PPF



Autarky (No Trade)

<u>US</u>	<u>Prod</u>	<u>Cons</u>
$Q_{au}$	500	500
$Q_a$	1,000	1,000
<u>Mexico</u>		
$Q_{au}$	1,000	1,000
$Q_a$	500	500

US

MEXICO

US opp cost of 1 airplane  
is  $\frac{1}{2}$  bundle of auto  
parts

Mexico opp cost of 1  
airplane is 2 bundles  
of auto parts

US has comp. advantage  
in airplane

Mexico has comp. adv.  
in auto parts



Suppose in world market,  
1 airplane traded for  
1 bundle of parts

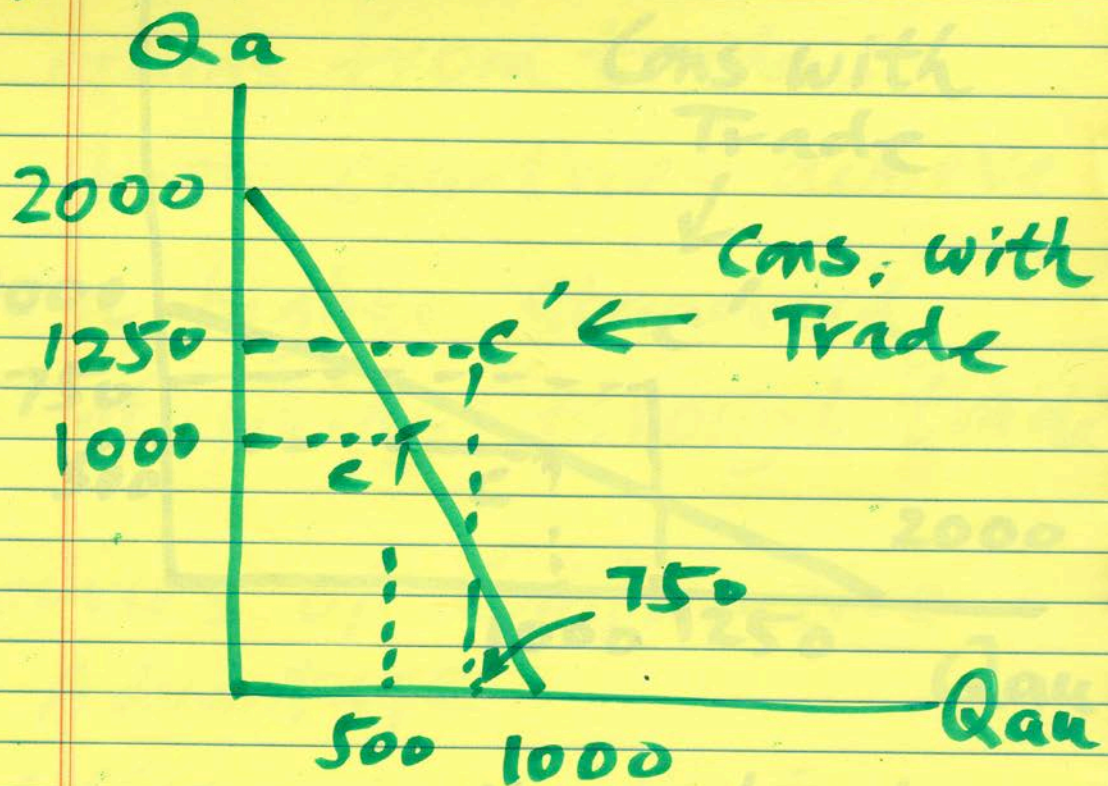
With Trade

<u>US</u>	<u>Prod</u>	<u>Cons</u>
$Q_{au}$	0	750
$Q_a$	2,000	1,250

Mexico

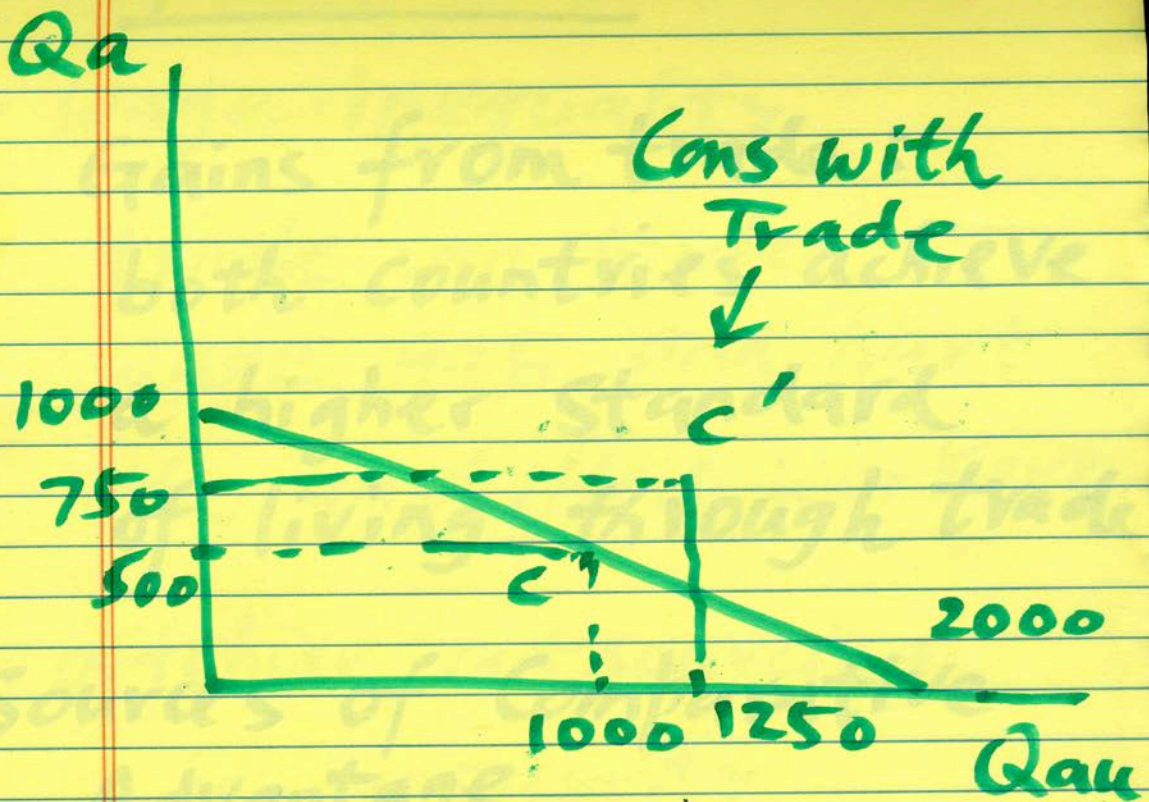
$Q_{au}$	2000	1250
$Q_a$	0	750

With Trade, countries  
can consume outside  
their PPFs



$c$  : consumption with  
no trade

# Mexico



$c$ : cons with no trade