

**Chapter 12: The Design of the Tax System**  
**Principles of Economics, 8<sup>th</sup> Edition**  
**N. Gregory Mankiw**

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1. Introduction

- a. All taxes taken together use up about a t
- b. *Prior to 1930, government role was limited.*

2. An Overview of U. S, Taxation

- a. The Federal Government
  - i. Taxes Collected by the Federal Government
    - (1) **Figure 1: Government Revenue as a Percentage of GDP. P. 229.**
    - (2) **Figure 2: Government Revenue as a Percentage of GDP: International Comparisons, P. 229**
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3. Taxes and Efficiency

- a. Deadweight losses that result when taxes distort the decisions that people make.
  - i. **Case Study: Should Income or Consumption Be Taxed? P. 233.**
- b. Administrative burden that taxpayers bear as they comply with the tax laws.
- c. Marginal Tax Rates Versus Average Tax Rates
  - i. Average tax rate is total taxes paid divided by total income. P 235.
  - ii. Marginal tax rate is the extra taxes paid on an additional dollar of income. P. 235.
  - iii. Lump sum taxes are taxes that are the same amount for every person. P. 235.

4. Taxes and Equity

- a. The benefits principle is the idea that people should pay taxes based on the benefits they receive from government services. P. 236.
  - i. **Table 4: Three Tax Systems. P. 237.**
- b. The ability to pay principle is the idea that taxes should be levied on a person according to how well that person can should the burden. P. 237.
- c. Vertical equity is the idea that taxpayers with a greater ability to pay taxes should pay larger amounts. P. 237.
- d. Horizontal equity is the idea that taxpayers with similar abilities to pay taxes should pay same amount. P. 237.
- e. Proportional tax is a tax for which high income and low income taxpayers pay the same fraction of income. P. 237.
- f. Regressive tax is a tax for which high income taxpayers pay a smaller fraction of their income than do low income taxpayers. P. 237.

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- g. Progressive tax is a tax for which high income taxpayers pay a larger fraction of their income than do low income taxpayers. P. 237.
- h. Case Study: How the Burden of the Taxes is Distributed? P. 238.**
  - i. *This data ignore transfer payments.*
  - ii. **Table 5: The Burden of Federal Taxes. P. 238.**
- 5. Tax Incidence and Tax Equity
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- 6. Conclusion: The Tradeoff Between Equity and Efficiency
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