

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE AND FISCAL
STUDIES

Optional to Finance

PART II - 2nd SEMESTER FINAL EXAMINATION – AUGUST 2009

ECONOMICS OF TAXATION [CFS 2203]

TIME ALLOWED: 3 HOURS

INSTRUCTIONS

- 1 Answer all questions
- 2 The marks for each question are shown in brackets at the end of the question
- 3 Write legibly.

Question 1 (10 marks)

Define the "formal incidence" and the "effective incidence" of a tax, and explain the economic processes that can lead to a difference between the formal and effective incidence. (10)

Question 2 (25 marks)

- a) Comment on the following statement: 'The market, not the government, determines the incidence of a tax.' Give an example or two to support your response. (15)
- b) Describe the main features of the Zimbabwe Tax System. (10)

Question 3 (20 marks)

Consider the following demand and supply equations:

$$P_c = 20 - 3X$$

$$P_s = X$$

- a. Draw these curves and find the equilibrium quantity, consumer and producer price.

- b. Consider a per unit tax of \$4 placed on consumers. Find the new equilibrium quantity, consumer price and producer price. Do consumers or producers pay a larger portion of the \$4 tax?
- c. Calculate the demand and supply elasticities at the new equilibrium point.
- d. Which is more elastic or inelastic? Does this reinforce or contradict your answer in (b) about the incidence of the tax? Explain.
- e. Find the tax revenue that the government collects.
- f. Find the excess burden of the tax using the elasticity formula?

Question 4 (15 marks)

Graduate employees at the NUST have recently formed a union to bargain for higher wages and improved working conditions. In response to this unionization effort, suppose that the administration agrees to meet some of the demands of graduate employees.

Consider the following scenario:

Suppose that the administration proposes to pay 100% of the payroll tax. Under the current system, the payroll tax is split evenly between employees and employers. The administration is now offering to pay this entire amount. Should the Graduate Employees Organization claim this as a victory for graduate employees? Why or why not?

The End