14.296/17.812 Problem Set 2

PT ch.3#3,#4; ch.6#1; ch.14#5

Please make the following corrections/revisions:

PT 6.1

b) Assume that only citizens with productivity parameters $e^i$ above 0.05 are allowed to vote, which exclude approximately 10% of the lowest-income earners from the electorate. Compute the new equilibrium tax rate.

c) Now suppose that 10% of the citizens of each productivity parameter $e^i$ were to retire and thus be moved to productivity $e^i = 0$. Compute the new equilibrium tax rate.