

Worksheet Solutions

The Effect of Taxes

Theme 4: What Is Taxed and Why
Lesson 2: Taxes in a Market Economy

Key Term

market economy—An economic system based on private enterprise that rests upon three basic freedoms: freedom of the consumer to choose among competing products and services, freedom of the producer to start or expand a business, and freedom of the worker to choose a job and employer.

Summary

Although the United States has a **market economy**, the government still plays an important role in business and financial affairs. In fact, about one-third of the nation's economy is based on government spending. For the most part, the government does not have an income of its own. At all levels the government relies on tax revenue to fund most of the services it provides and to purchase goods and services from others. Tax revenue is dependent on what individuals and businesses earn, spend, and own.

Activity 1

Answer the following multiple-choice questions by writing the letter of the correct answer in the space provided.

- A** 1. With the money Erin earned baby-sitting, she bought a book priced at \$5.95. She paid a tax of \$.36 on the book. What type of tax did she pay?
- A. sales tax
 - B. excise tax
 - C. payroll tax
 - D. income tax
 - E. property tax
- D** 2. Mr. Presutti paid taxes on the profits of his construction business. What type of tax did he pay?
- A. sales tax
 - B. excise tax
 - C. payroll tax
 - D. income tax
 - E. property tax
- B** 3. Nearly \$16 of the \$24 Jonah paid for gasoline goes to taxes. What type of tax did Jonah pay?
- A. sales tax
 - B. excise tax
 - C. payroll tax
 - D. income tax
 - E. property tax

Activity 2

Calculate the tax described in each item below. Write your answer in the space provided.

1. Mrs. Waylon contributes about 8% of her earnings to payroll taxes. If she earns \$400 per week, how much payroll tax does she pay per year? **about \$1,664**
2. In his hometown Alejandro pays 4% for state sales tax and 2% for local sales tax. What sales tax will he pay on a DVD player that sells for \$129? **\$7.74**
3. Max's property tax recently increased by 5%. Last year Max paid \$1,200 in property taxes. How much property tax will he pay this year? **\$1,260**

Activity 3

Economists use the circular flow model to explain the interaction among households, business, and the government. Study the circular flow model below and answer the questions in the spaces provided.



1. What do businesses provide government? **taxes; goods and services**
2. What do businesses receive from government? **services; payments**
3. What do households provide businesses? **labor; payments**
4. What do businesses provide households? **income; goods and services**