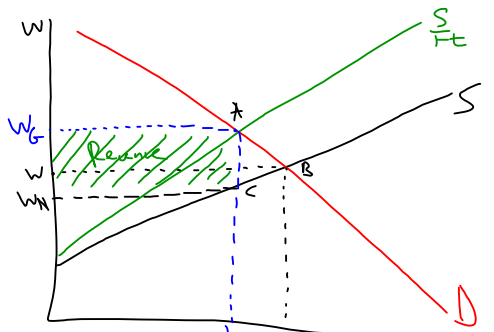
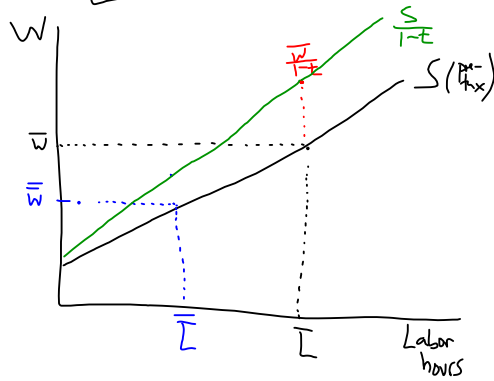


Put in taxes.

Defined on gross wage
(what buyer/employer pays you)
and you (seller) send it to the
government.

$$Y = W_N(24 - \lambda) \quad , \text{ net wage}$$

$$\Rightarrow Y = W_G(1-t) \cdot (24 - \lambda)$$



$$DWL = ABC$$

$$Revenue = t \cdot W_G \cdot L_1$$

$$\begin{aligned} \text{Distance } AC &= W_G - W_N = W_G - (1-t)W_G \\ &= tW_G \end{aligned}$$

Tax revenue raised

$t_0 > t_1$, tax cut.

Initial revenue = $t_0 \cdot W_G(t_0) \cdot L_0$

New revenue = $t_1 \cdot W_G(t_1) \cdot L_1$

We know: $t_1 < t_0$,

$L_1 > L_0$.

$W_G(t_1) < W_G(t_0)$

Is New Revenue \geq Initial revenue?
 $<$

People argue about this endlessly.
High stakes issue. Relatively little
data from economy (nonexperimental,
of course) with which to study
this.

Supply siders

Art Laffer,
Jack Kemp,
fringe folk
Say Yes

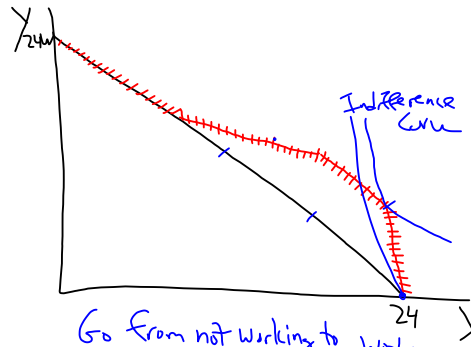
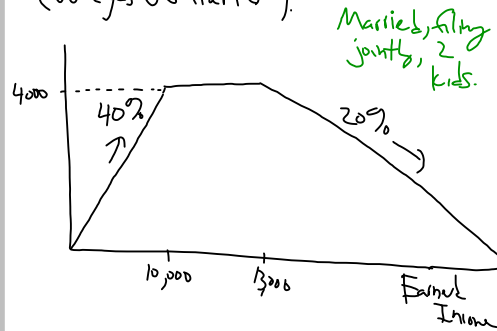
Adam Smith,
Martin Feldstein,
many economists.
Won't raise more
money, but other
great things may

In fact, the Feldstein group
says the other group gave No.
"Supply side" economics a bad name.

Earned Income Tax Credit

Earned Income Tax Credit

Assistance to the working poor.
 You must have earned income
 (wages & salaries).



Go from not working to working.

Everyone working has some incentive to work less.

Data (Fuchs), no significant effect on hours worked by those working, except perhaps by married women.

Refundable, so get check back from government if tax owed < credit.

Tax liability = 0 on 1st dollar of earned income because of exemptions & deduction (prob standard deduction).

To study savings, we use the "life cycle" model.

$$U(C_1, C_2)$$

C_1 = consumption today

C_2 = consumption tomorrow.

Assume you get (exogenous) income in the first period only.

[For simplicity.]

Y_1 = exogenous income.

σ = what you save.

$$\Rightarrow C_1 = Y_1 - \sigma$$

$$C_2 = \sigma + r(1-t) \cdot \sigma$$

$$= [1+r(1-t)] \sigma$$

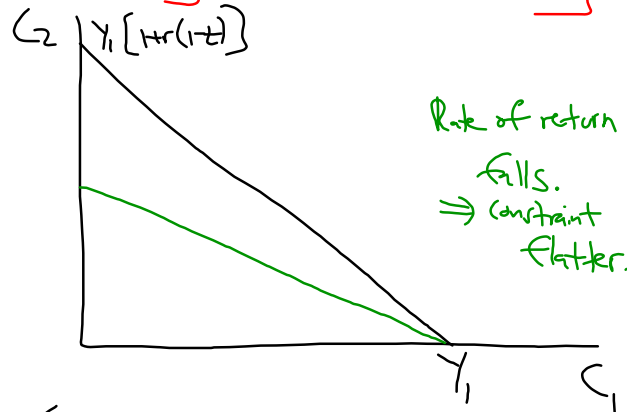
Eliminate σ , combine equations, get budget constraint:

$$C_1 = Y_1 - \frac{C_2}{1+r(1-t)}$$

or

$$[1+r(1-t)] C_1 + C_2 = Y_1 [1+r(1-t)]$$

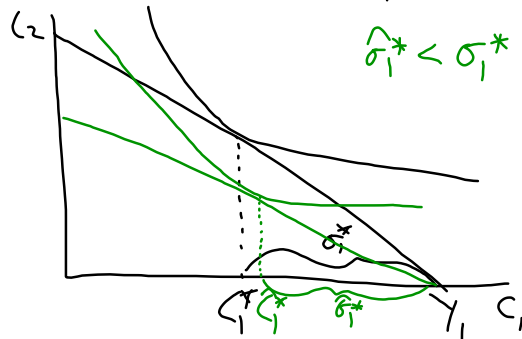
$$[1+r(1-t)]C_1 + C_2 = Y_1 [1+r(1-t)]$$

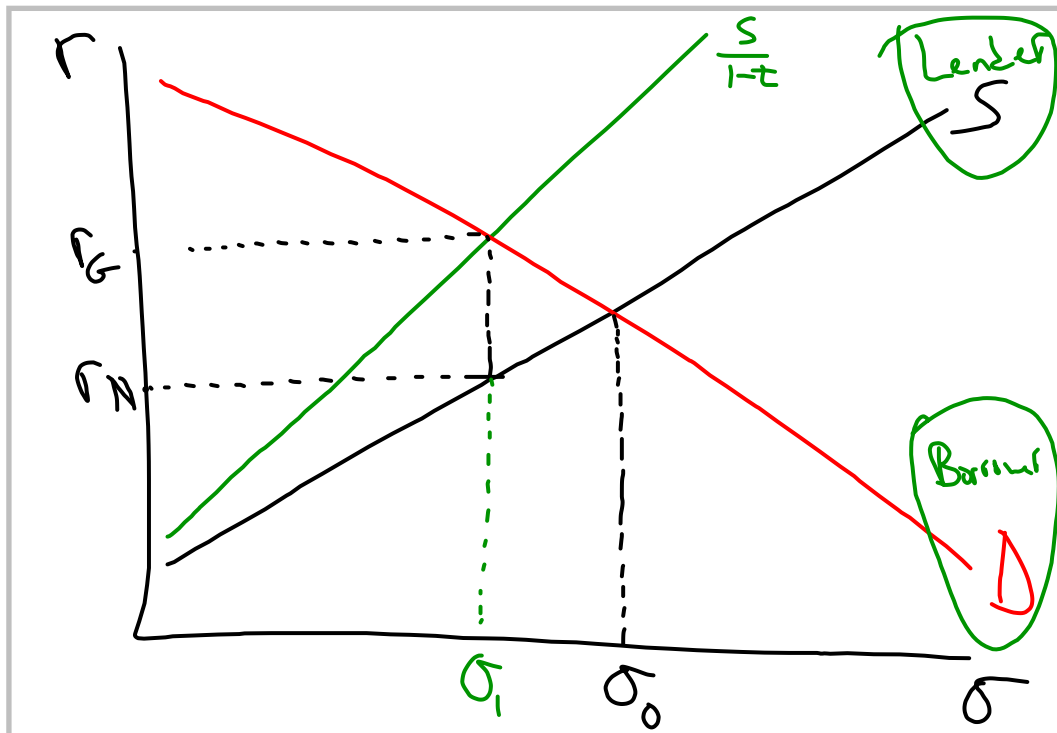


Substitution effect \Rightarrow increase C_1 ,
save less.

Income effect: decrease C_1 .
save more.

Intuition that "Savings supply" is upward sloping comes from a presumption that the substitution effect is dominant.





r_G is what the borrower pays.

This would be unchanged from r_N initial equilibrium interest rate if D is horizontal or S is vertical.

Form 1040 U.S. Individual Income Tax Return **2006** OMB No. 1545-0047

For the year Jan. 1-Dec. 31, 2006, or other tax year beginning 2006, ending 2006

Label (See instructions on page 16.) Use the IRS label. Otherwise, please print or type. Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 16) You Spouse

LABEL HERE

Your first name and initial: **GEORGE W.** Last name: **BUSH** Your social security number: [REDACTED]

If a joint return, spouse's first name and initial: **LAURA W.** Last name: **BUSH** Spouse's social security number: [REDACTED]

Home address (number and street), if you have a P.O. box, see page 18. Apt. no.: Home address: **C/O NORTHERN TRUST CO, PO BOX 803938** Apt. no.: **CHICAGO, IL 60680**

City, town or post office name, and ZIP code. If you have a foreign address, see page 15. Checking a box below will not change your tax or refund.

Filing Status

1 Single 4 Head of household (with qualifying person). If the qualifying person is a child but not your dependent, enter this child's name here. ▶

2 Married filing jointly (even if only one had income) 5 Qualifying widow(er) with dependent child (see page 17)

3 Married filing separately. Enter spouse's SSN above and full name here. ▶

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a. Blases claimed on 8a and 8b **2**

b Spouse No. of children on the return or those with you at the end of the year you may be eligible for separation (see page 20) **2**

c Dependents:		d Dependents' social security number	e Dependents' relationship to you	f If a qualifying child or other dependent (see page 19)
(1) First name	Last name			

Dependents on 8c not entered above. Add numbers on lines above. **2**

d Total number of exemptions claimed **2**

Income	7	8a	8b	9a	9b	10	11	12	13	14	15a	15b	16a	16b	17	18	19	20a	20b	21	22	
Wages, salaries, tips, etc. Attach Form(s) W-2																						397,768.
Taxable interest. Attach Schedule B if required																						285,734.
Tax-exempt interest. Do not include on line 8a																						
Ordinary dividends. Attach Schedule B if required																						38,201.
Qualified dividends (see page 23)			15,716.																			
Taxable refunds, credits, or offsets of state and local income taxes																						
Alimony received																						
Business income or (loss). Attach Schedule C or C-EZ																						
Capital gain or (loss). Attach Schedule D if required. If not required, check here																						42,075.
Other gains or (losses). Attach Form 4797																						
IRA distributions	15a																					
Pensions and annuities	16a																					
Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17																					2,023.
Farm income or (loss). Attach Schedule F	18																					
Unemployment compensation	19																					
Social security benefits	20a																					
Other income. List type and amount (see page 29)	21																					
22 Add the amounts in the far right column for lines 7 through 21. This is your total income																						765,801.

Adjusted Gross Income	23	24	25	26	27	28	29	30	31a	32	33	34	35	36	37
Archery MSA deduction. Attach Form 8853	23														
Health savings account deduction. Attach Form 8889	25														
Moving expenses. Attach Form 3903	26														
One-half of self-employment tax. Attach Schedule SE	27														
Self-employed SEP, SIMPLE, and qualified plans	28														
Self-employed health insurance deduction (see page 29)	29														
Penalty on early withdrawal of savings	30														
Alimony paid. Recipient's SSN ▶	31a														
IRA deduction (see page 31)	32														
Student loan interest deduction (see page 33)	33														
Jury duty pay you gave to your employer	34														
Domestic production activities deduction. Attach Form 8803	35														
36 Add lines 23 through 31a and 32 through 35															
37 Subtract line 36 from line 22. This is your adjusted gross income															765,801.

Form 1040 (2005) **GEORGE W. & LAURA W. BUSH**

Page 2

Tax and Credits	38	Amount from line 37 (adjusted gross income)	58	765,801.
	39a	Check <input type="checkbox"/> You were born before January 2, 1942, <input type="checkbox"/> blind. <input type="checkbox"/> Spouse was born before January 2, 1942, <input type="checkbox"/> blind.	Total bases checked	59
				60
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	120,696.
	41	Subtract line 40 from line 38	41	645,105.
	42	If line 38 is over \$112,875, or you provided housing to a person displaced by Hurricane Katrina, see page 56. Otherwise, multiply \$3,300 by the total number of exemptions claimed on line 6d	42	2,200.
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	642,905.
	44	Tax. Check if any tax is from: <input type="checkbox"/> Form(s) 9814 b <input type="checkbox"/> Form 4972	44	186,709.
	45	Alternative minimum tax. Attach Form 6251	45	186,709.
	46	Add lines 44 and 45	46	186,709.
	47	Foreign tax credit. Attach Form 1118 if required	47	331.
	48	Credit for child and dependent care expenses. Attach Form 2441	48	
	49	Credit for the elderly or the disabled. Attach Schedule R	49	
	50	Education credits. Attach Form 8863	50	
	51	Retirement savings contributions credit. Attach Form 8880	51	
52	Residential energy credits. Attach Form 5695	52		
53	Child tax credit (see page 42). Attach Form 8801 if required	53		
54	Credits from: a <input type="checkbox"/> Form 8396 b <input type="checkbox"/> Form 8839 c <input type="checkbox"/> Form 8859	54		
55	Other credits: <input type="checkbox"/> Form 5600 <input type="checkbox"/> Form 8801 e <input type="checkbox"/> Form	55		
56	Add lines 47 through 55. These are your total credits	56	331.	
57	Subtract line 56 from line 46. If line 56 is more than line 46, enter -0-	57	186,378.	
Other Taxes	58	Self-employment tax. Attach Schedule SE	58	
	59	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	59	
	60	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	60	
	61	Advance earned income credit payments from Form(s) W-2, box 9	61	
	62	Household employment taxes. Attach Schedule H	62	
63	Add lines 57 through 62. This is your total tax	63	186,378.	
Payments	64	Federal income tax withheld from Forms W-2 and 1099	64	110,019.
	65	2006 estimated tax payments and amount applied from 2005 return	65	95,680.
	66a	Earned income credit (EIC)	66a	
			66b	Nonrefundable combat pay election
	67	Excess social security and tier 1 RRTA tax withheld (see page 60)	67	
	68	Additional child tax credit. Attach Form 8812	68	
	69	Amount paid with request for extension to file (see page 80)	69	
	70	Payments from: a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136 c <input type="checkbox"/> Form 8865	70	
71	Credit for federal telephone excise tax paid. Attach Form 8913 if required	71	40.	
72	Add lines 64, 65, 66a, and 67 through 71. These are your total payments	72	205,739.	
Refund	73	If line 72 is more than line 63, subtract line 63 from line 72. This is the amount you overpaid	73	19,361.
	74a	Amount of line 73 you want refunded to you. If Form 8898 is attached, check here	74a	
74b	Routing number	74b		
		74c	Account type <input type="checkbox"/> Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other	
75	Amount of line 73 you want applied to your 2007 estimated tax	75	19,361.	
Amount You Owe	76	Amount you owe. Subtract line 72 from line 63. For details on how to pay, see page 62	76	
77	Estimated tax penalty (see page 62)	77		
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see page 63)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No			
Sign	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Preparer's signature	Date	Preparer's occupation	Daytime phone number
Preparer's	The Northern Trust Company		4/5/07	PRESIDENT
	Spouse's signature if a joint return, both must sign		Date	Spouse's occupation
Preparer's	Kangy Peltan - Spkin		4/5/07	FIRST LADY
	Preparer's signature	Date	Check if self-employed	Preparer's SSN or PTIN
Preparer's	Firm's name (or yours if self-employed), address, and ZIP code			
Preparer's	Phone no.			

2006 Earned Income Credit (EIC) Table

Caution. This is not a tax table.

1. To find your credit, read down the "At least - But less than" columns and find the line that includes the amount you were told to look up from your EIC Worksheet.

2. Then, go to the column that includes your filing status and the number of qualifying children you have. Enter the credit from that column on your EIC Worksheet.

Example. If your filing status is single, you have one qualifying child, and the amount you are looking up from your EIC Worksheet is \$2,455, you would enter \$842.

If the amount you are looking up from the worksheet is—		And your filing status is—		
		Single, head of household, or qualifying widow(er) and you have—		
At least	But less than	No children	One child	Two children
2,400	2,450	186	825	970
2,450	2,500	189	842	990

If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children
At least	But less than	Your credit is—			Your credit is—		
\$1	\$50	\$2	\$9	\$10	\$2	\$9	\$10
50	100	6	26	30	6	26	30
100	150	10	43	50	10	43	50
150	200	13	60	70	13	60	70
200	250	17	77	90	17	77	90
250	300	21	94	110	21	94	110
300	350	25	111	130	25	111	130
350	400	29	128	150	29	128	150
400	450	33	145	170	33	145	170
450	500	36	162	190	36	162	190
500	550	40	179	210	40	179	210
550	600	44	196	230	44	196	230
600	650	48	213	250	48	213	250
650	700	52	230	270	52	230	270
700	750	55	247	290	55	247	290
750	800	59	264	310	59	264	310
800	850	63	281	330	63	281	330
850	900	67	298	350	67	298	350
900	950	71	315	370	71	315	370
950	1,000	75	332	390	75	332	390
1,000	1,050	78	349	410	78	349	410
1,050	1,100	82	366	430	82	366	430
1,100	1,150	86	383	450	86	383	450
1,150	1,200	90	400	470	90	400	470
1,200	1,250	94	417	490	94	417	490
1,250	1,300	98	434	510	98	434	510
1,300	1,350	101	451	530	101	451	530
1,350	1,400	105	468	550	105	468	550
1,400	1,450	109	485	570	109	485	570
1,450	1,500	113	502	590	113	502	590
1,500	1,550	117	519	610	117	519	610
1,550	1,600	120	536	630	120	536	630
1,600	1,650	124	553	650	124	553	650
1,650	1,700	128	570	670	128	570	670
1,700	1,750	132	587	690	132	587	690
1,750	1,800	136	604	710	136	604	710
1,800	1,850	140	621	730	140	621	730
1,850	1,900	143	638	750	143	638	750
1,900	1,950	147	655	770	147	655	770
1,950	2,000	151	672	790	151	672	790
2,000	2,050	155	689	810	155	689	810
2,050	2,100	159	706	830	159	706	830
2,100	2,150	163	723	850	163	723	850
2,150	2,200	166	740	870	166	740	870
2,200	2,250	170	757	890	170	757	890
2,250	2,300	174	774	910	174	774	910
2,300	2,350	178	791	930	178	791	930
2,350	2,400	182	808	950	182	808	950
2,400	2,450	186	825	970	186	825	970
2,450	2,500	189	842	990	189	842	990
2,500	2,550	193	859	1,010	193	859	1,010
2,550	2,600	197	876	1,030	197	876	1,030
2,600	2,650	201	893	1,050	201	893	1,050
2,650	2,700	205	910	1,070	205	910	1,070
2,700	2,750	208	927	1,090	208	927	1,090
2,750	2,800	212	944	1,110	212	944	1,110
2,800	2,850	216	961	1,130	216	961	1,130
2,850	2,900	220	978	1,150	220	978	1,150
2,900	2,950	224	995	1,170	224	995	1,170
2,950	3,000	228	1,012	1,190	228	1,012	1,190
3,000	3,050	231	1,029	1,210	231	1,029	1,210
3,050	3,100	235	1,046	1,230	235	1,046	1,230
3,100	3,150	239	1,063	1,250	239	1,063	1,250
3,150	3,200	243	1,080	1,270	243	1,080	1,270
3,200	3,250	247	1,097	1,290	247	1,097	1,290
3,250	3,300	251	1,114	1,310	251	1,114	1,310
3,300	3,350	254	1,131	1,330	254	1,131	1,330
3,350	3,400	258	1,148	1,350	258	1,148	1,350
3,400	3,450	262	1,165	1,370	262	1,165	1,370
3,450	3,500	266	1,182	1,390	266	1,182	1,390
3,500	3,550	270	1,199	1,410	270	1,199	1,410
3,550	3,600	273	1,216	1,430	273	1,216	1,430
3,600	3,650	277	1,233	1,450	277	1,233	1,450
3,650	3,700	281	1,250	1,470	281	1,250	1,470
3,700	3,750	285	1,267	1,490	285	1,267	1,490
3,750	3,800	289	1,284	1,510	289	1,284	1,510
3,800	3,850	293	1,301	1,530	293	1,301	1,530
3,850	3,900	296	1,318	1,550	296	1,318	1,550
3,900	3,950	300	1,335	1,570	300	1,335	1,570
3,950	4,000	304	1,352	1,590	304	1,352	1,590
4,000	4,050	308	1,369	1,610	308	1,369	1,610
4,050	4,100	312	1,386	1,630	312	1,386	1,630
4,100	4,150	316	1,403	1,650	316	1,403	1,650
4,150	4,200	319	1,420	1,670	319	1,420	1,670
4,200	4,250	323	1,437	1,690	323	1,437	1,690
4,250	4,300	327	1,454	1,710	327	1,454	1,710
4,300	4,350	331	1,471	1,730	331	1,471	1,730
4,350	4,400	335	1,488	1,750	335	1,488	1,750
4,400	4,450	339	1,505	1,770	339	1,505	1,770
4,450	4,500	342	1,522	1,790	342	1,522	1,790
4,500	4,550	346	1,539	1,810	346	1,539	1,810
4,550	4,600	350	1,556	1,830	350	1,556	1,830
4,600	4,650	354	1,573	1,850	354	1,573	1,850
4,650	4,700	358	1,590	1,870	358	1,590	1,870
4,700	4,750	361	1,607	1,890	361	1,607	1,890
4,750	4,800	365	1,624	1,910	365	1,624	1,910
4,800	4,850	369	1,641	1,930	369	1,641	1,930
4,850	4,900	373	1,658	1,950	373	1,658	1,950
4,900	4,950	377	1,675	1,970	377	1,675	1,970
4,950	5,000	381	1,692	1,990	381	1,692	1,990

(Continued on page 54)