

Week 1 - Try this

Consider the consumption-leisure (C, L) trade-off again. The price of the consumption good is p and the pre-tax wage rate is w . If the individual's earnings falls below Y then the government gives them a means-tested benefit equal to the difference between their earnings and Y . This benefit cannot be negative and has a 100% withdrawal rate. Earnings over Y are subject to income tax at the rate t and earnings above a higher rate threshold (\bar{Y}) are taxed at the higher rate \bar{t} .

Find the equation(s) describing the budget line, and draw and label the budget constraint.

The first correct answer to ian.crawford@economics.ox.ac.uk wins a FABULOUS PRIZE.