

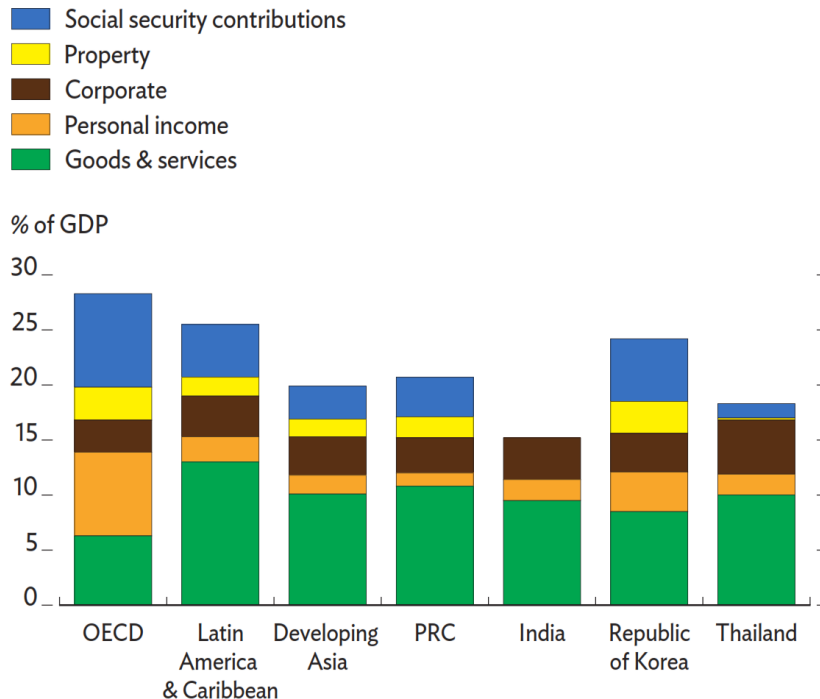
## Quiz #3

### EE460 (Semester 1/ 2018)

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**Question 1: Figure 1 globally compares the structure of tax revenues of countries/regions. What are key differences between Thailand's tax structure and that of OECD countries?**

**Figure 1: Tax composition in developing Asia, Latin America, and the OECD, 2010**

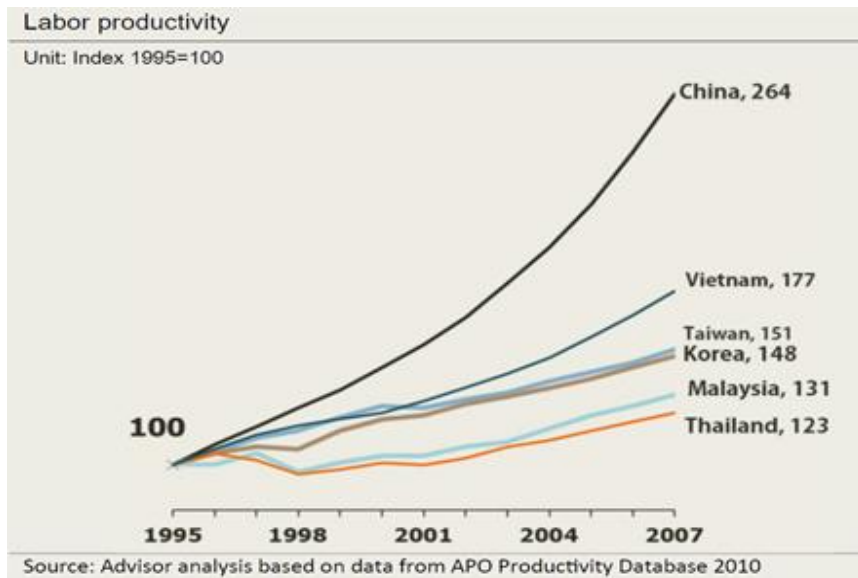


Source: ADB (2014)

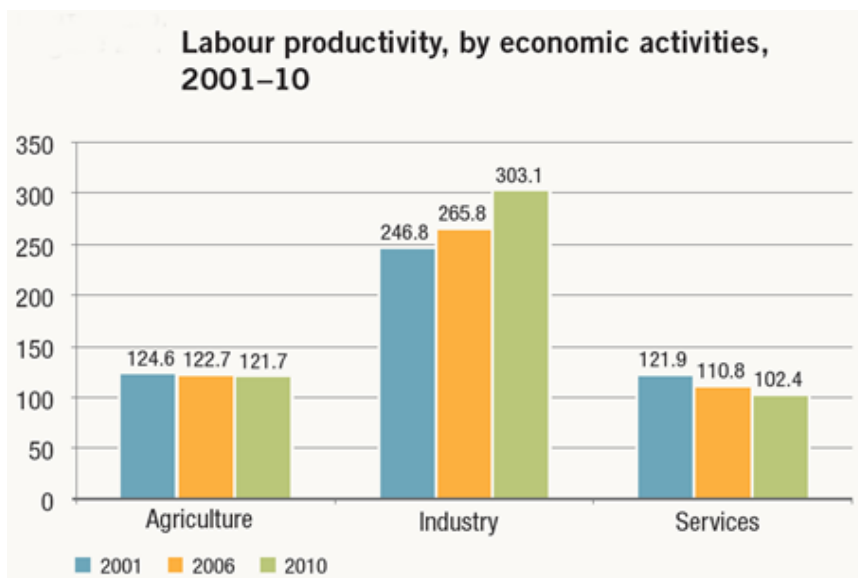
**Answer: There are two differences. Firstly, the share of total tax revenue of Thailand was less than 20% of GDP, while that of OECD countries was around 28%. Secondly, the main sources of tax revenue for OECD countries were personal income tax and social security contributions. However, in the case of Thailand, the Value-Added Tax (i.e. the tax imposed on consumptions of goods and services) was the largest source of tax revenue. This comparison indicates that commonly for developing countries, the personal income tax cannot be the main source of government's revenue because most people are still living with the low and middle levels of incomes. Hence, most governments of developing countries can only rely on the sales tax and/or VAT as their main sources of tax revenues. Furthermore, with the average annual income per capita of approximately \$6000, the total amount of tax revenue is then constrained to be lower than 20% of GDP.**

**Question 2: Based on the empirical trend shown in Figure 2, what are the main causes of the low labor productivity in the case of Thailand? Are the statistical evidences exhibited in Figure 3 related to the low productivity growth?**

**Figure 2: Total labor productivity in Asian region**



**Figure 3: Labor productivity by economic activities (2001- 2010)**



**Answer:** Figure 3 indeed exhibits the underlying causes leading to the low growth of labor productivity in the case of Thailand. Specifically, there has been only 15% of Thai labors working in the industrial production, while the rest of them are participating in the agricultural and service sectors. Figure 3 also indicates that the productivity only occurs in the industrial sector, while that of agricultural and service has been declining. Hence, based on these facts, it is inevitable that the labor productivity has remained very low, compared to those of other Asian economies. The low expansion of private investment since 2001 has also caused the stagnancy of employment in the industrial sector, constraining a large number of workers to remain in agriculture or move to informal service jobs.

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