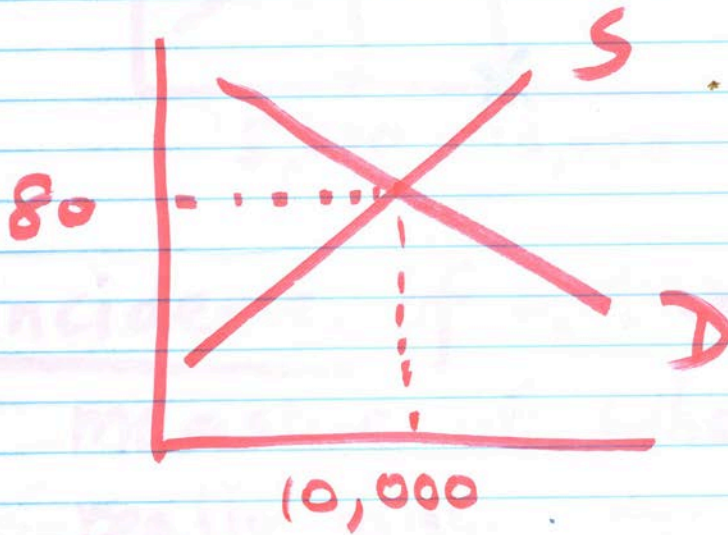


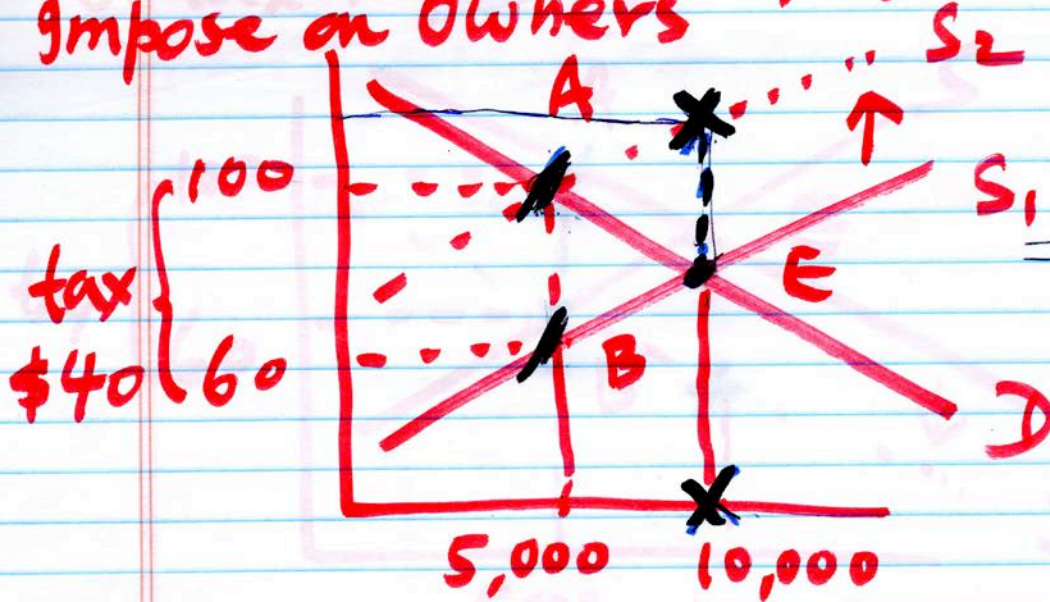
ch 7 Taxation

Excise Tax: tax on sales
of a good or service

S and D of Hotel Rooms



a. Hotel Owners "pay" tax
impose on Owners



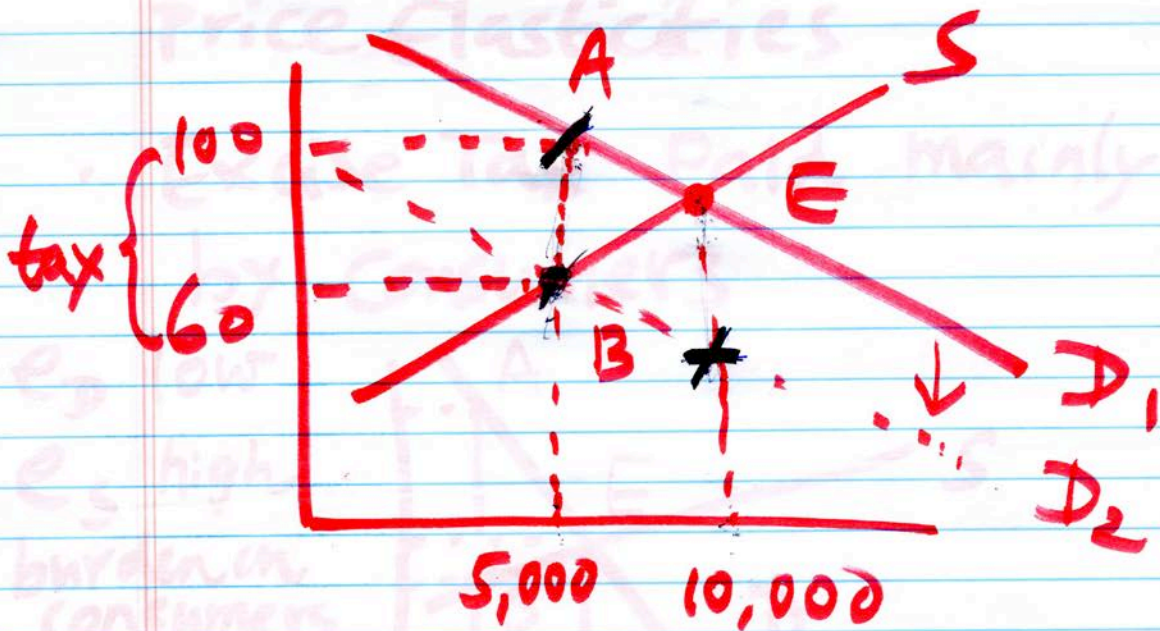
incidence of a tax:
measure of who
really pays it

Consumer A-E ← 20

Producer E-B ← 20

Hoff (OMNIGAZ, beer, fox

b. Tax imposed on Guests



Incidence

Consumer A - E = 20

Producer E - B = 20

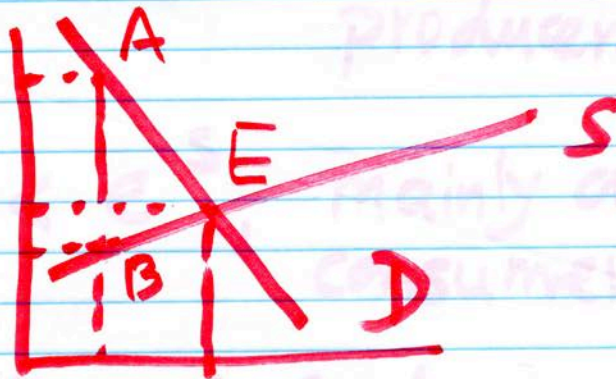
Does not matter who officially pays the tax, the effective P & Q same

• Tax imposed on demand

Tax Incidence and Price Elasticities

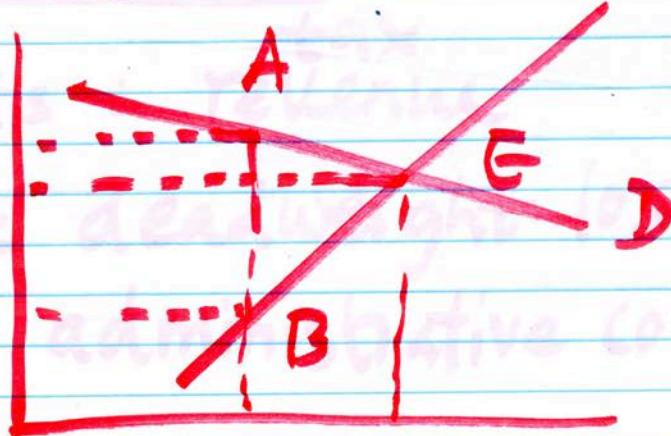
- Excise Tax Paid mainly by consumers

e_D low
 e_S high
burden on consumers



- Tax Paid mainly by Producers

e_D high
 e_S low
burden on producers



Tax incidence

In general,

$e^s < e^d$, excise tax
burden
mainly on
producers

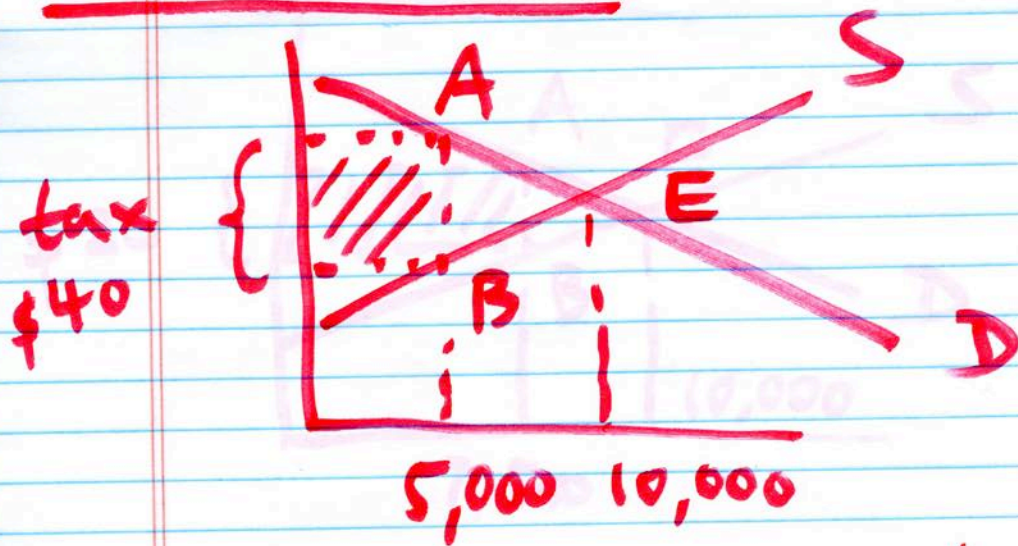
$e^d < e^s$, mainly on
consumers

Benefits and Costs
of Taxation

Benefits : ^{tax} revenue

Costs : deadweight loss
administrative costs

Tax Revenue

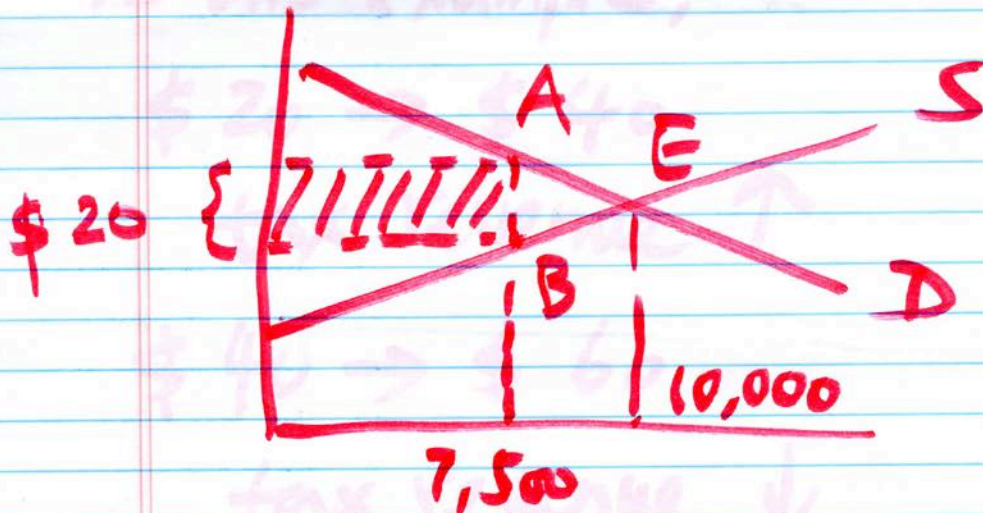


||| Tax revenue = \$200,000

Tax rate: amount of tax people are required to pay per unit of whatever is being taxed

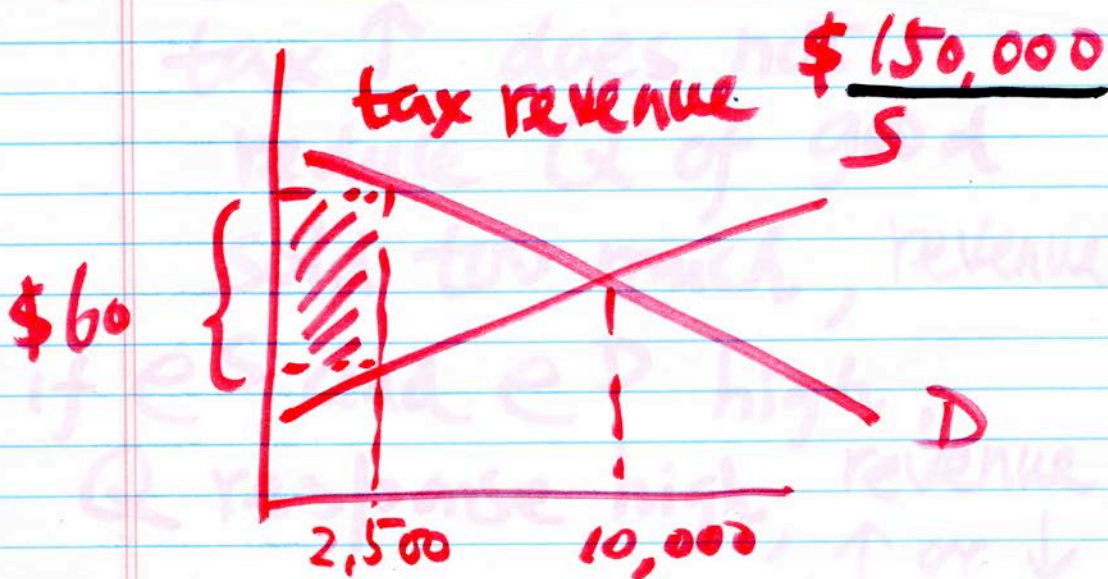
Tax Incidence

Excise tax = \$20



tax revenue \$150,000

Excise tax = \$60



Excise tax = \$50

In this example,

\$20 → \$40

tax revenue ↑

\$40 → \$60

tax revenue ↓

if e^S and e^D low

tax ↑ does not

reduce Q of good

Sold too much, revenue ↑

if e^S and e^D high,

Q response high, revenue
↑ or ↓

If initial tax rate low,
government does not
lose much revenue with
 $Q \downarrow$, tax increase
 \Rightarrow tax revenue \uparrow

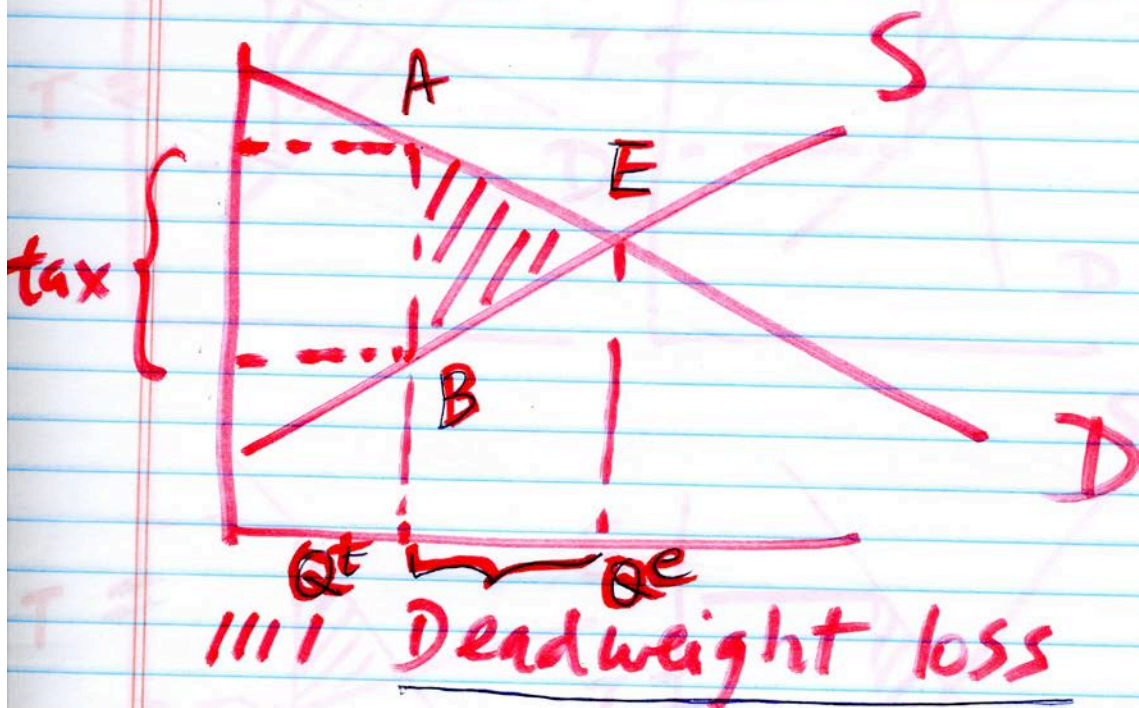
Application

Laffer Curve

- Supply side economics
- Reagan tax cut

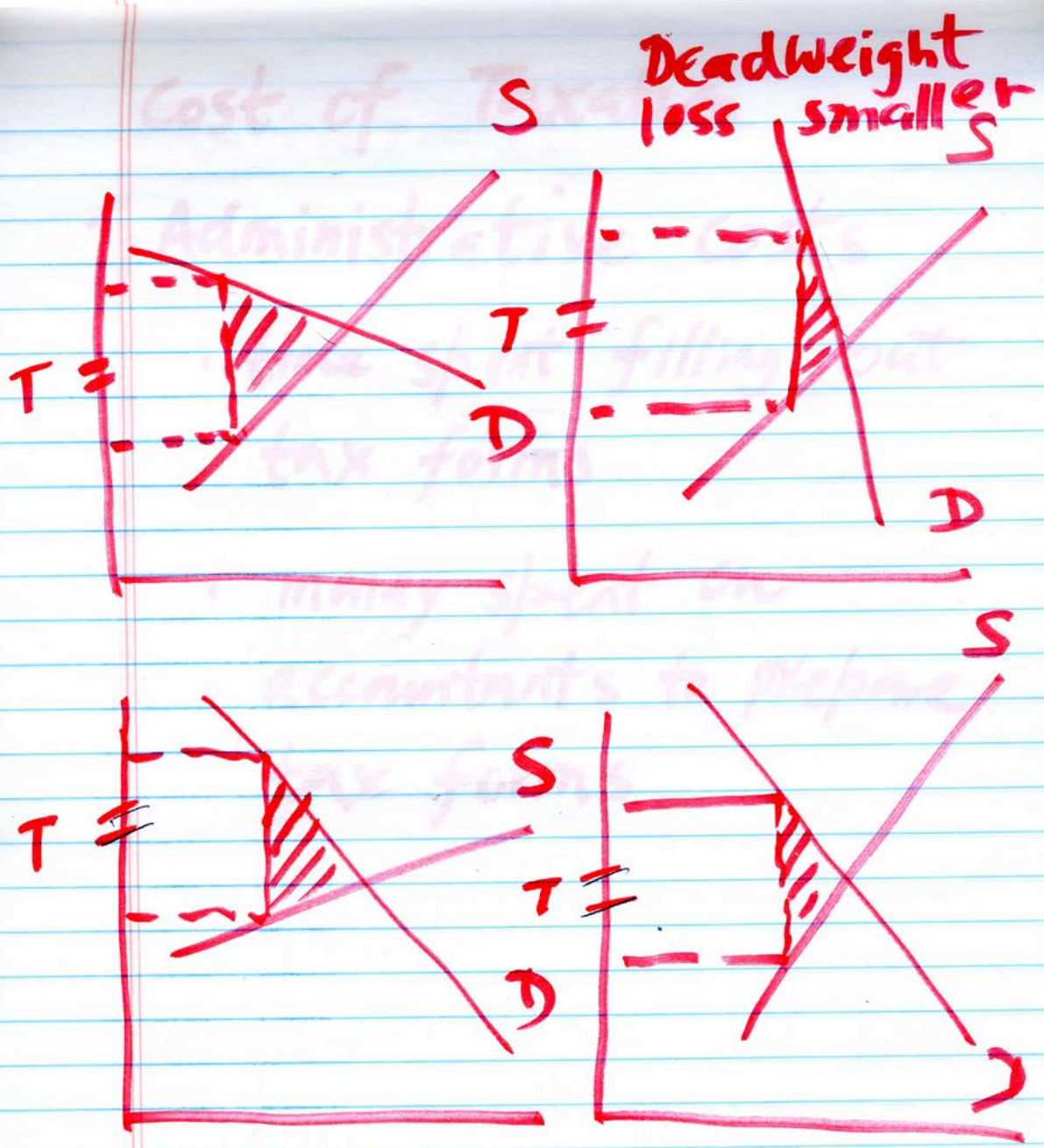
Cost of taxation

Deadweight loss



If D or S or both
is relatively inelastic,
smaller deadweight loss

Cost of Taxation



For comparisons, hold T constant

Cost of Taxation

- Administrative costs

- time spent filling out tax forms

- money spent on accountants to prepare tax forms

ability-to-pay principle

- those with greater ability to pay a tax

corp of [unclear]

Tax Fairness

- benefits principle

- those who benefit from public spending should bear the burden of the tax that pays for the spending.

- ability-to-pay principle

- those with greater ability to pay a tax should pay more tax