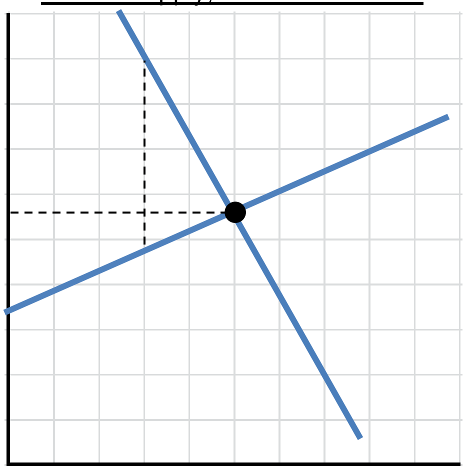
CONCEPT: ELASTICITY AND TAXES

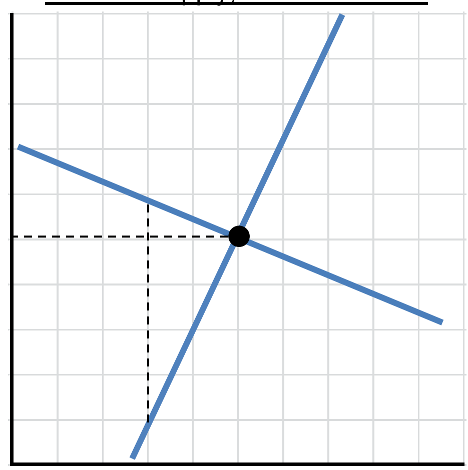
●The burden of the tax is split between buyers and sellers based on the ____________________ of the curves.

□ The party paying the tax does not necessarily bear the burden of the tax entirely.

Elastic Supply, Inelastic Demand



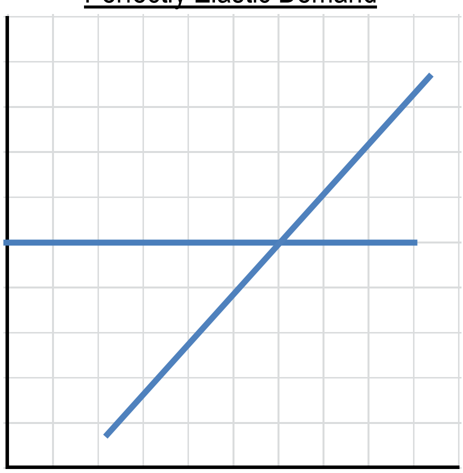
Inelastic Supply, Elastic Demand



□ The curve that is more inelastic represents the group who will have ____________ tax incidence.

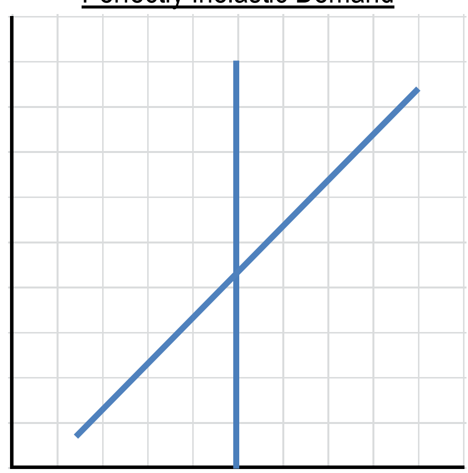
- Demand Curve more inelastic →
- Supply Curve more inelastic →

Perfectly Elastic Demand



____________ bears entire tax burden

Perfectly Inelastic Demand



____________ bears entire tax burden.

PRACTICE: A $1 per-unit tax levied on consumers of a good is equivalent to

a) A $1 per unit tax levied on producers of the good
b) A $1 per unit subsidy paid to producers of the good
c) A price floor that raises the good's price by $1 per unit
d) A price ceiling that raises the good's price by $1 per unit

PRACTICE: A tax imposed on consumers of a good:

a) Creates a loss only for consumers
b) Creates a loss only for producers
c) Creates a deadweight loss for society as a whole
d) Creates a net gain for society as a whole

PRACTICE: Suppose that a unit tax of $2 is imposed on producers with initial equilibrium of $10. If the demand curve is vertical and the supply curve is upward-sloping, what will be the price faced by consumers after the tax?

a) $8
b) $10
c) $12
d) There is not enough information.