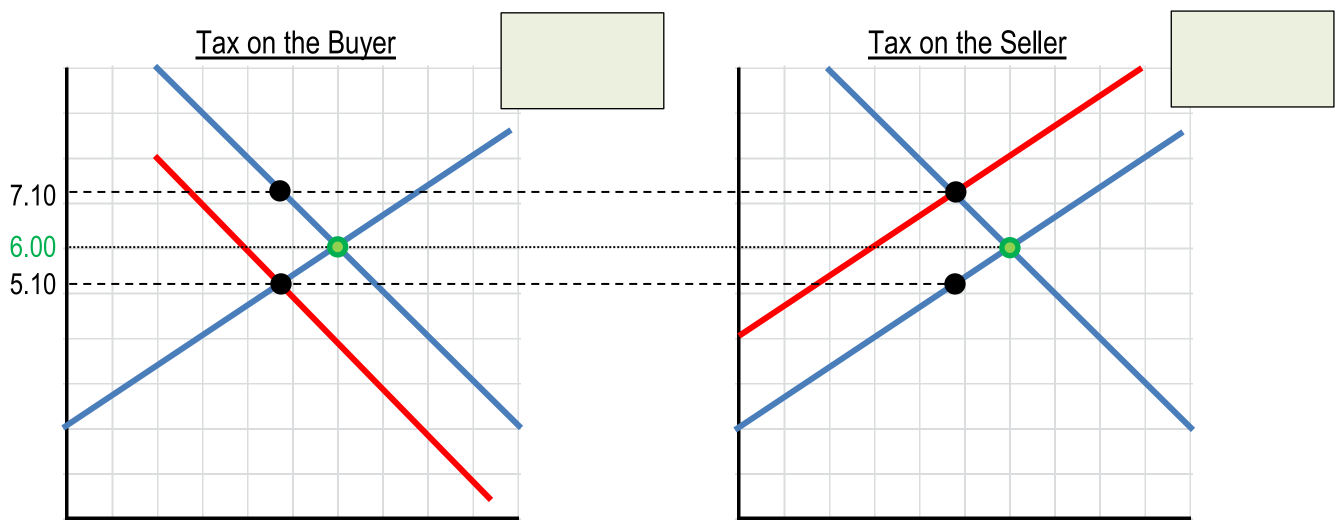
CONCEPT: INTRODUCING TAXES AND TAX INCIDENCE

● Taxes allow the government to provide public services. Taxes can either be imposed on the buyer or the seller of a good.

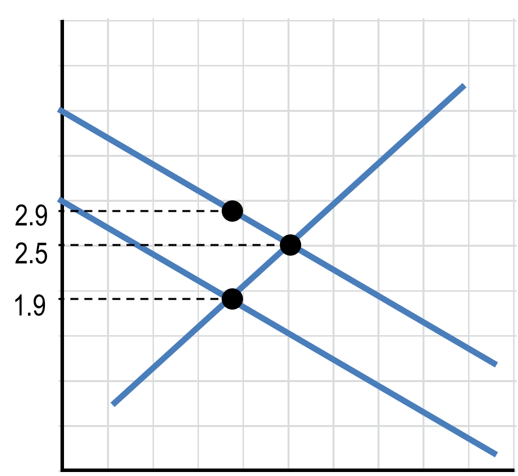
- □ The tax shifts the curve of the party paying the tax to the ____________ by the amount of the tax.
- □ Total amount the buyer pays = _________ Total amount the seller receives = _________
- □ A tax will *always* make the quantity exchanged _____________ than the equilibrium quantity.
- □ The party paying the tax does not necessarily bear the burden of the tax entirely.



- □ The ***tax incidence*** is the manner in which the burden of the tax is shared.

Total Tax	Consumer's Tax Incidence		Producer's Tax Incidence	
		$\frac{\square}{\square}$ =		$\frac{\square}{\square}$ =

EXAMPLE: The following graph depicts the market for a bag of magic beans. If the government imposes a tax of one cow on buyers of magic beans, what is the tax incidence on producers of magic beans?



PRACTICE: If a tax is levied on the sellers of a product, the demand curve:

a) Shifts to the left in an amount equal to the tax
b) Shifts to the right in an amount equal to the tax
c) Does not change
d) Is inelastic

PRACTICE: A tax was levied upon buyers of a good. What is the amount sellers receive after the tax is imposed?

a) 19
b) 25
c) 29
d) None of the above