

WA 2 Hints

# For Prompt 1

- The Benefits-Received Principal

- *People who receive the benefits from a government program should pay the tax that support the program.*

- The Ability-to-Pay Principle

- **Vertical equity** – *greater share of the tax burden should be borne by people who have a greater ability to pay.*

- The Horizontal-Equity Principle

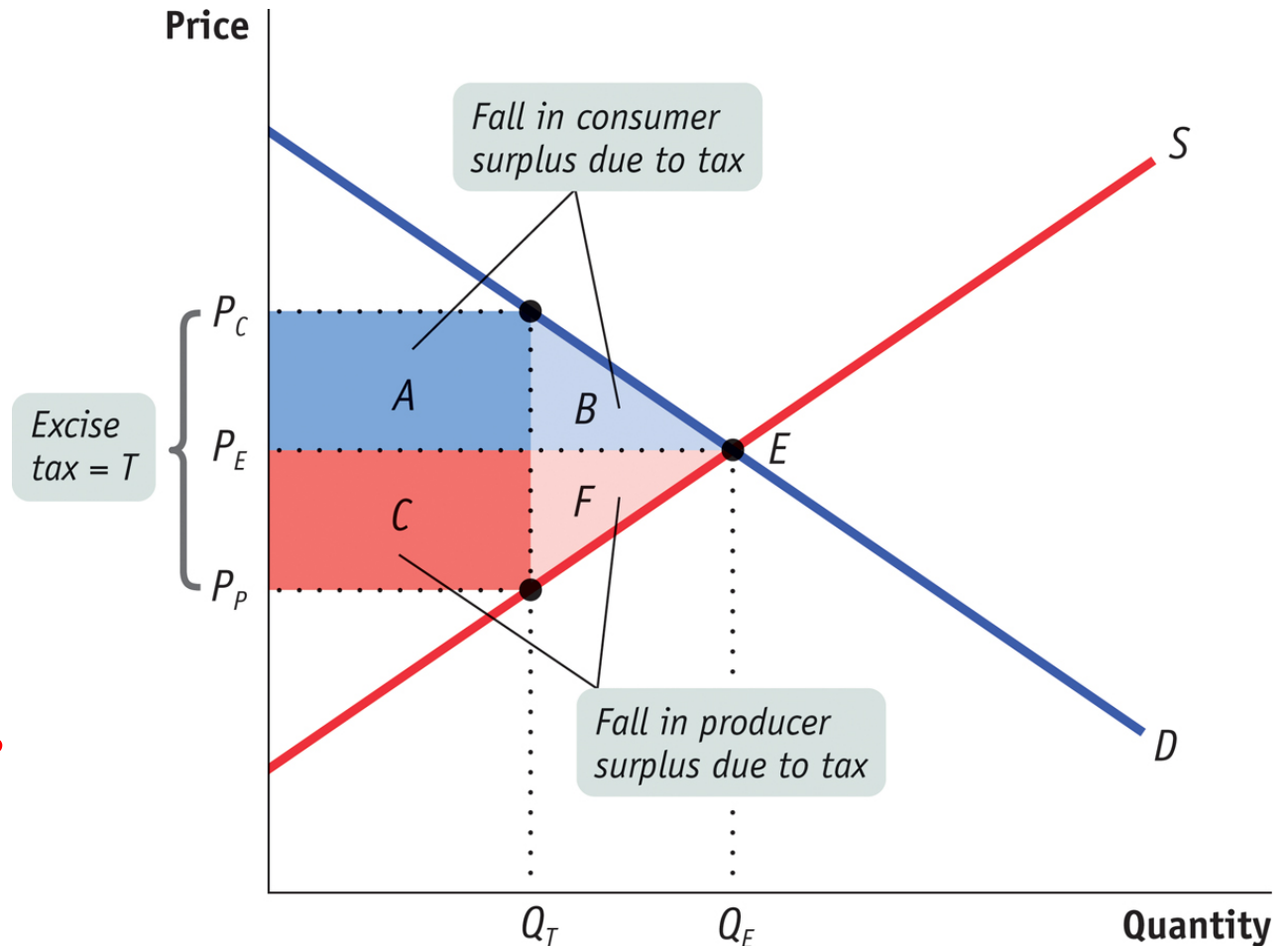
- *Similar people should be treated the same.*

- Attaining Social Objectives

- *Discourage certain activities to fulfill a certain social objective.*

## For Prompt 2

- **Tax Incidence**
  - *The division of the burden between buyers and sellers in the market.*
- **Who pays how much depends entirely on the Price Elasticity of Demand.**
- *When **Demand** for a product is **less elastic** than supply, **consumers pay the majority of the tax.***
- *When **Demand** for a product is **more elastic** than supply, **firms pay the majority of the tax.***



## For Prompt 2 cont.

- Basically, if Demand is more elastic than Supply, Supply will pay most of the tax.
- If Demand is less elastic than Supply, Demand will pay most of the tax.