

3.5 Incorporating the social cost of raising revenue through taxation

Excise tax on a good results in deadweight loss
SS is reduced w/ taxes

leakage or excess tax burden = proportion of tax or subsidy that results in deadweight loss

Increase in DL from raising tax \$1 = METB

METB = marginal excess tax burden

$METB + 1 = MCPE$

↳ marginal cost of public funds

$SS = CS + PS + (MCPE)GS$

3.6 Measuring changes in welfare

3.7 Conclusions

CBA aims to efficiently allocate resources

Appendix 3A CS and WTP

Compensating Variation

Indifference Curves

Income + substitution effects

Demand Curves

Marshallian Demand uses Income + substitution effects

Utility Compensated

Hicksian Compensated Variation demand Curve

Equivalence of CS + compensating variation

Equivalent variation as an alternative to compensating variation