

# Taxation and Efficiency In-Class Questions

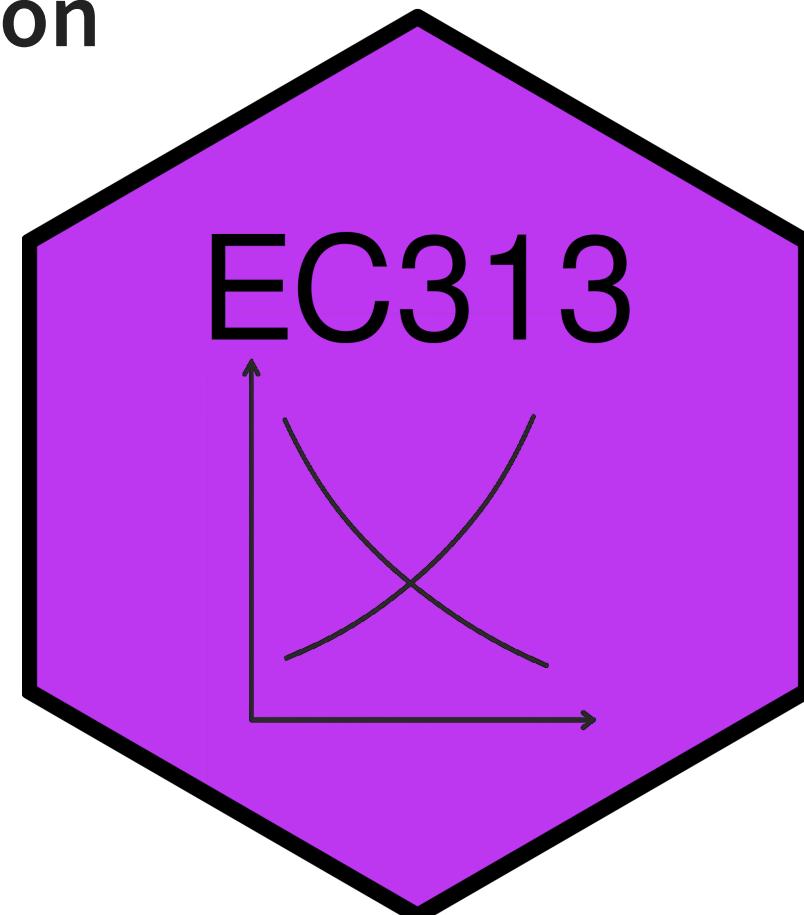
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EC313- Public Economics: Taxation

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# RTTWS Chapter 15 Problem 2

Describe how the shape of an individual's indifference curve affects the magnitude of a tax's excess burden. What does this tell you about how the degree of substitutability between the taxed item and the other item matters for the efficiency of taxation?

# RTTWS Chapter 15 Problem 5

Which of the following is likely to impose a large excess burden?

- a) A tax on land





# RTTWS Chapter 15 Problem 5

Which of the following is likely to impose a large excess burden?

- b) A subsidy on personal computers



# RTTWS Chapter 15 Problem 5

Which of the following is likely to impose a large excess burden?

- c) A tax of \$75 on smartphones



# RTTWS Chapter 15 Problem 5

Which of the following is likely to impose a large excess burden?

- d) A subsidy on investment in high tech companies?



# RTTWS Chapter 15 Problem 5

Which of the following is likely to impose a large excess burden?

- e) A 5% tax on bottled water



# RTTWS Chapter 15 Problem 5

Which of the following is likely to impose a large excess burden?

- f) A 10% tax on all computer software



# RTTWS Chapter 15 Problem 6

Suppose the market demand curve for beer is described by the equation  $Q_d^b = 600 - 15P_b^d$  where ( $Q_d^b$ ) is the number of cases of beer and ( $P_b^d$ ) is the price per case. The supply curve is given by  $Q_s^b = 10P_b^s$

- Calculate the elasticities of demand and supply at the equilibrium quantity.



# RTTWS Chapter 15 Problem 6

- b. Suppose the government introduces an excise tax of 15 percent per case of beer. Determine the excess burden of this tax using the formula found in footnote 7 and the elasticities found in part (a).



# RTTWS Chapter 15 Problem 6

c. Calculate the tax revenues and the average excess burden.



# RTTWS Chapter 15 Problem 11

Setting a price ceiling for a good below the market price results in an excess burden.

Demonstrate this by using supply and demand curves. In addition, show how the imposition of a tax on a substitute good, by affecting the demand for the good with a price ceiling, increases the excess burden.

