

ANSWER KEY - Writing Assignment 1: Analysis of the Soda Tax in Berkeley CA

- (a). An increase in the price shifts the budget constraint, so that each consumer can now purchase 10 SSBs if they purchase no water. The tax will result in less SSBs purchased.
- (b). Utility will decrease because the best indifference curve that intersects the budget constraint will be closer to zero.
- (c). Consumers may drive to other towns to purchase SSBs, thereby avoiding the tax and reducing tax revenue for Berkeley.