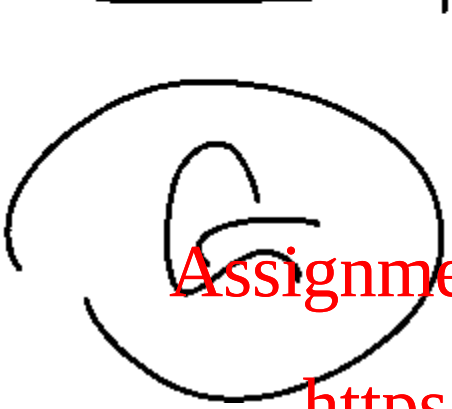
$(C C_1, C_2)$

$Z = 1$ best m.p



proportional
fax is distorting

t.y

R.C. $c_1 + c_2 = y - g$

b.c. $c_1 + \frac{V_t}{V_{t+1}} c_2$

$g = \tau$, $z = 1$

$= y - \frac{V_t}{V_{t+1}} \cdot \tau$

$\frac{V_{t+1}}{V_t} = \frac{n}{z} \epsilon$ $n = 1$

$\leftarrow z = 1$

$g = \tau$

$\frac{G}{N}$

$G = T + \left(1 - \frac{1}{z}\right)^{V_t} M_t$

if $g = \tau$, then $G = T$

$G = g \cdot N$

$T = \tau \cdot N$

$\rightarrow (1 - \frac{1}{2}) V_t M_A = 0$

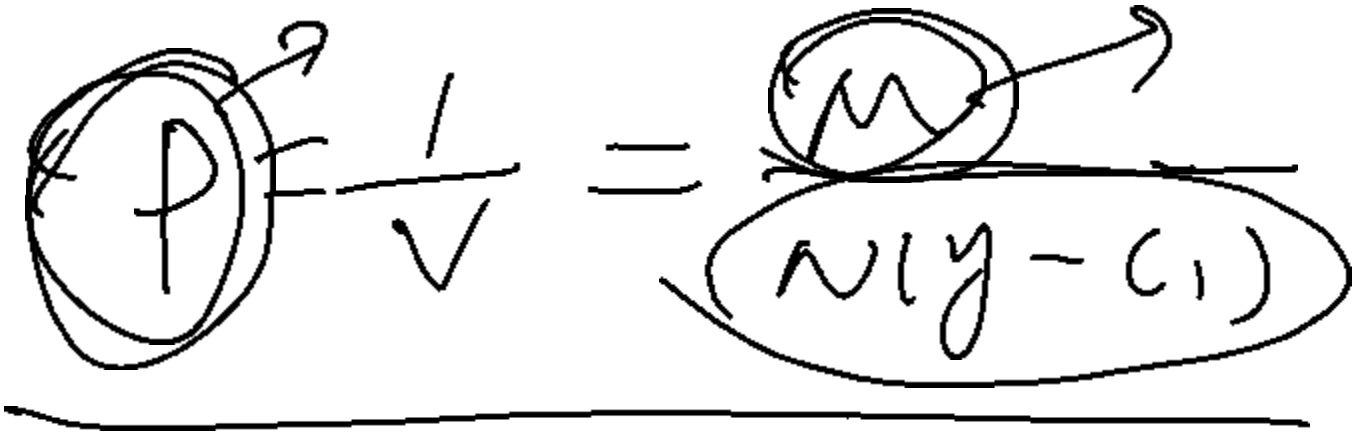
$\boxed{t = 1}$

Income tax revenue = t × tax base

tax rate

tax base

π ← inflation = money growth rate



$z^2 > z^1$

b.c. $c_1 + \frac{V_t}{V_{t+1}} c_2 \leq y$

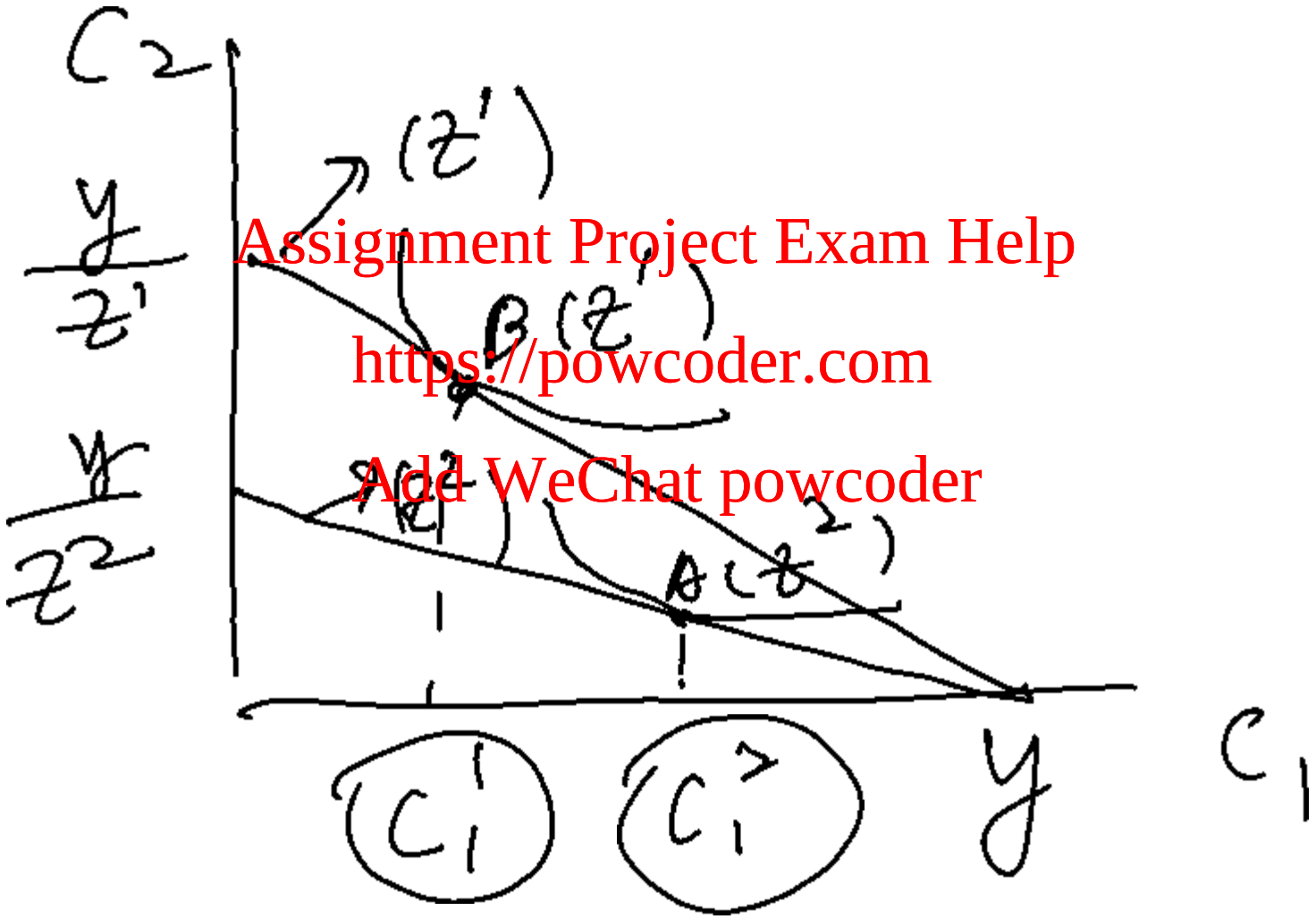
$\frac{V_t}{V_{t+1}} = z$ → slope $= \frac{1}{z}$

→ b.c. $c_1 + z c_2 = y$

when z ↑, slope ↓

$z^2 > z^1$

→ flatter



$$\frac{V_{t+1}}{V_t} = \frac{1}{z} \Rightarrow$$

$\frac{P_{t+1}}{P_t} = z$

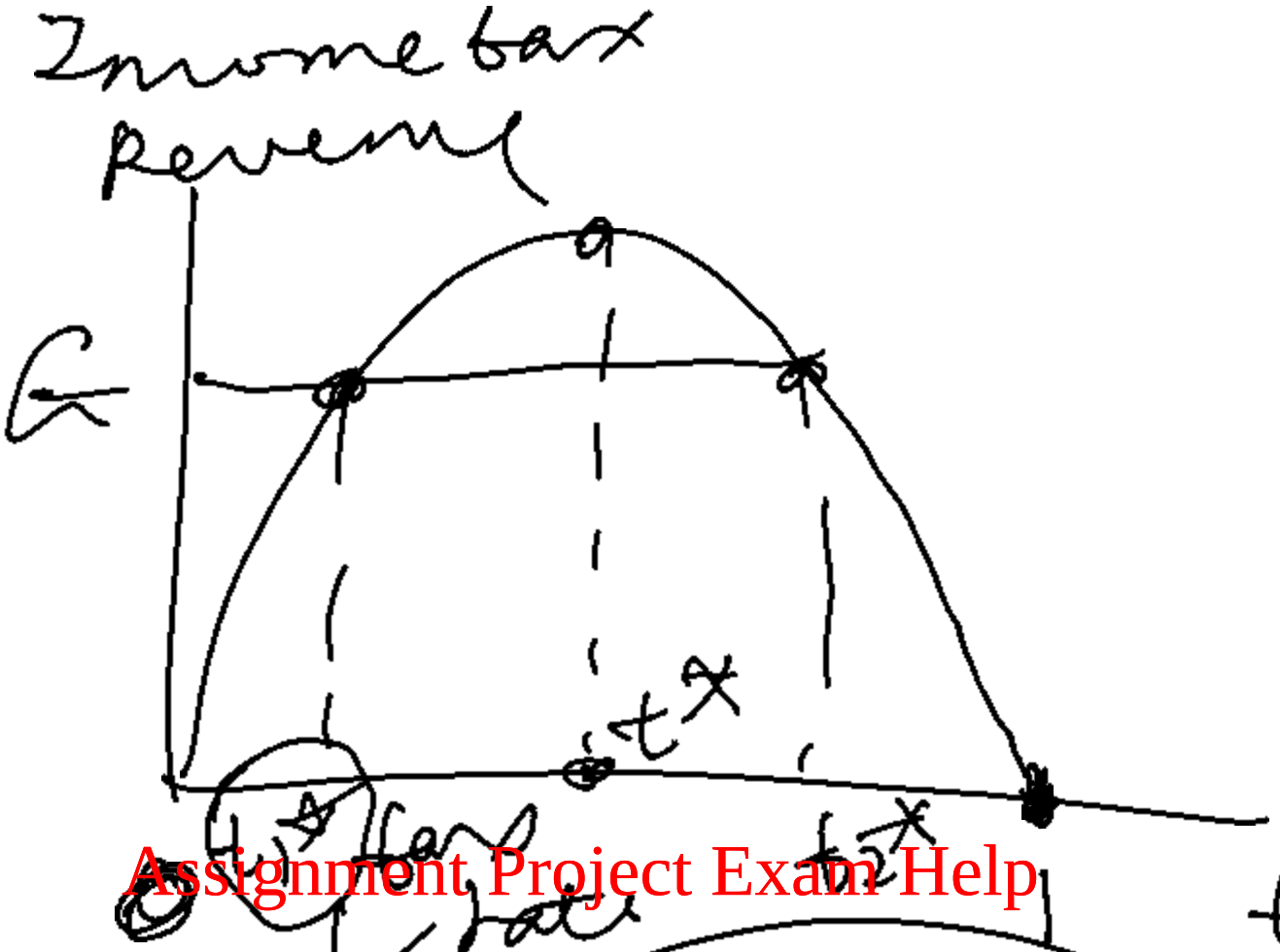
$z \uparrow \rightarrow$ 2nd period consumption goods more expensive

SE $C_1 \downarrow, C_2 \uparrow$

SE $C_1 \uparrow, C_2 \downarrow$

$\therefore |SE| > |IE|$

$\therefore C_1 \uparrow, C_2 \downarrow$



Rev $= t \cdot w \cdot n(t)$

↓ tax base

t: tax rate

w: hourly wage rate

$n(t)$: time spent working every day