Wage and Consumption Taxes

\[ \tau^*_w = \frac{\tau_w + \tau_s}{1 + \tau_s} \]

Wage Taxes = Sales Taxes

- I work for $10 an hour
  - \( \tau_w = 20\% \)
  - I can purchase $8 of goods and services.

- I work for $10 an hour
  - \( \tau_w = 0\% \)
  - \( \tau_s = 25\% \)
  - I can purchase $8 of goods and services.
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Warning the equivalence is not exact. One of the lessons of consumption theory is that we do not have to spend when we earn. As a consequence, there are differences.

End