Tax Rates and DWL

A Simple Product

The product costs nothing to produce so competition forces its price to zero. 

\[ Q = 300000 \]

A $1 tax

The DWL
The General Proposition: DWL is proportional to the square of the tax rate.
A $2 tax

\[ DWL_{\text{Tax}=$2} = 9 \times DWL_{\text{Tax}=$1} \approx \$135,000 \]

The General Proposition: DWL is proportional to the square of the tax rate.

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