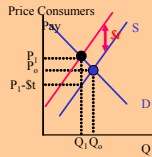
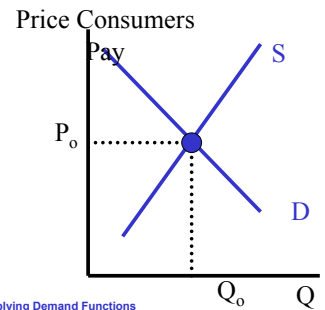


Applying Demand Functions



Lectures in Microeconomics-Charles W. Upton

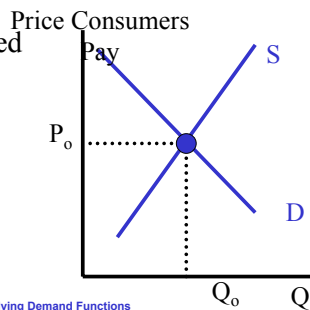
Imposing a Tax



Applying Demand Functions

Imposing a Tax

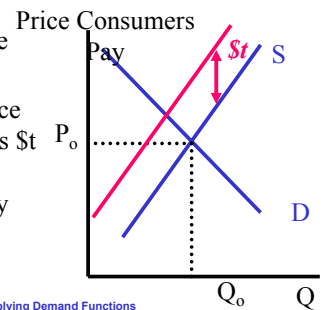
- A tax $\$t$ is levied on sales of a product



Applying Demand Functions

Imposing a Tax

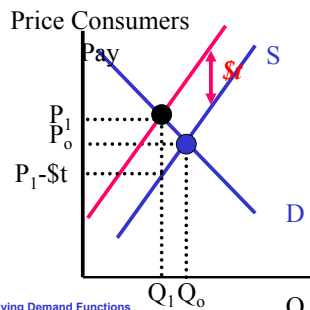
- The supply curve shifts up by $\$t$.
 - Why? The price suppliers get is $\$t$ less than consumers pay



Applying Demand Functions

What Happens

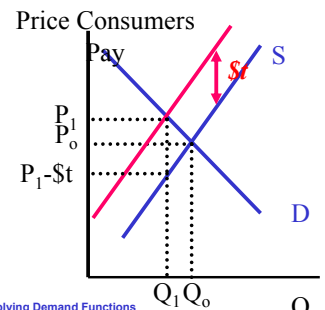
- Quantity sold drops



Applying Demand Functions

What Happens

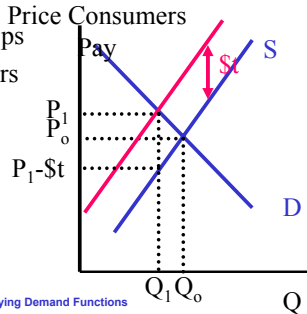
- Quantity sold drops
- The price suppliers gets decreases.



Applying Demand Functions

What Happens

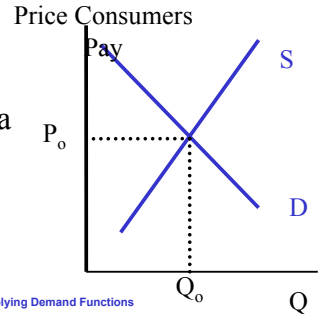
- Quantity sold drops
- The price suppliers gets decreases.
- The price consumers pay, tax included, rises.



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Suppose Consumers Pay

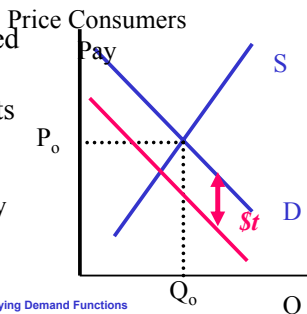
- A tax $\$t$ is levied on purchases of a product



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Suppose Consumers Pay

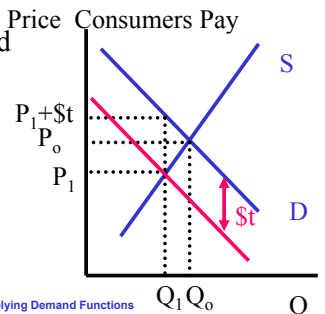
- A tax $\$t$ is levied on purchases
- The curve shifts down by $\$t$.
 - The price consumers pay is $\$t$ more, tax included



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Suppose Consumers Pay

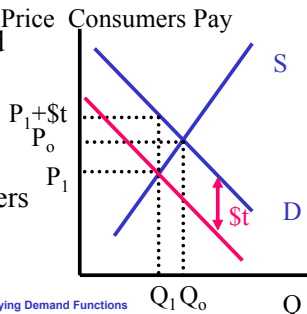
- A tax $\$t$ is levied on purchases
- The quantity sold drops.



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Suppose Consumers Pay

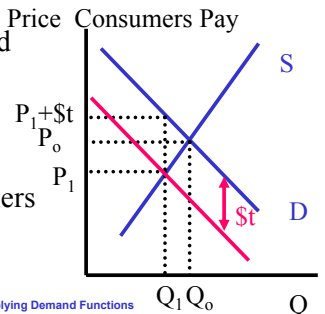
- A tax $\$t$ is levied on purchases
- The quantity sold drops.
- The price suppliers get decreases



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Suppose Consumers Pay

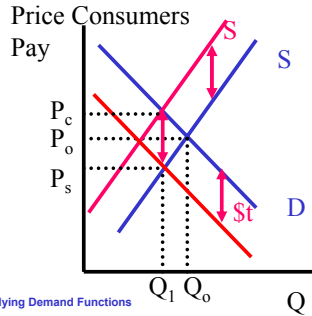
- A tax $\$t$ is levied on purchases
- The price consumers pay, tax included, increases



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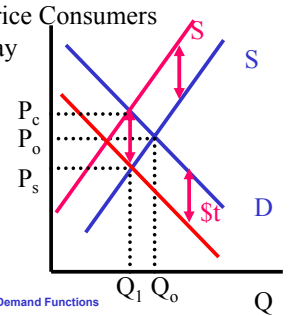
Compare the two cases

- Does it make a difference?



Compare the two cases

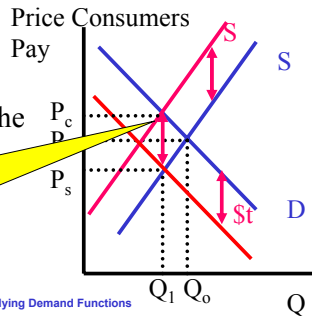
- Does it make a difference?
- Lets combine the two effects



Compare the two cases

- Does it make a difference?
- Lets combine the

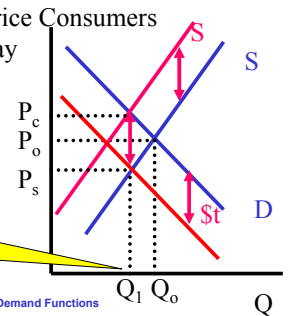
Shift in supply and demand curves is the same, \$t



Compare the two cases

- Does it make a difference?
- Lets combine the two effects

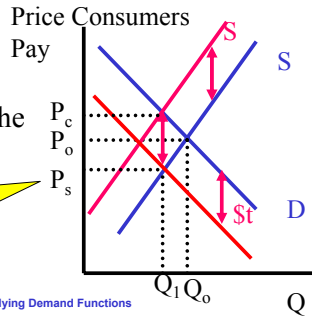
Quantity Sold is the Same



Compare the two cases

- Does it make a difference?
- Lets combine the two effects

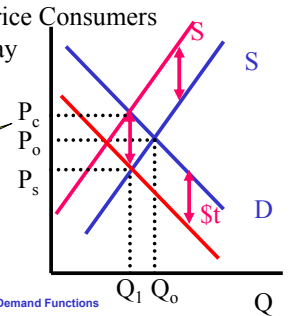
Net price to suppliers is the same



Compare the two cases

- Does it make a difference?
- Lets combine the two effects

Price to consumers is the same



Conclusion

- The incidence of a tax is independent of who actually pays the tax.
- The actual split between demanders and suppliers depends on the slope of the supply and demand curves, not the legalities.

An Old Problem

- The City of Kent is planning a tax on automobile sales.
- One plan would levy the tax on dealers, the other on customers.
- Which will have the greater effect on sales?

An Old Problem

- The City of Kent is planning a tax on automobile sales.
- O: **There is a difference?** alers, the
ot **(Actually No)**
- Which will have the greater effect on sales?

End

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W. Upton