Taxing a Competitive Industry

S+T
S
P
T
D
Q

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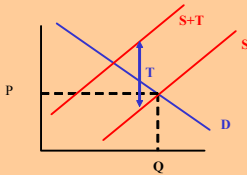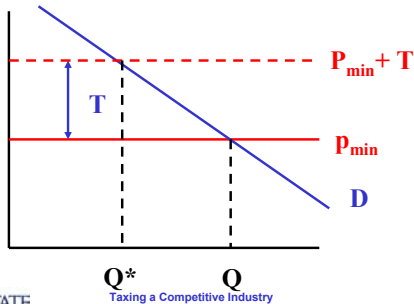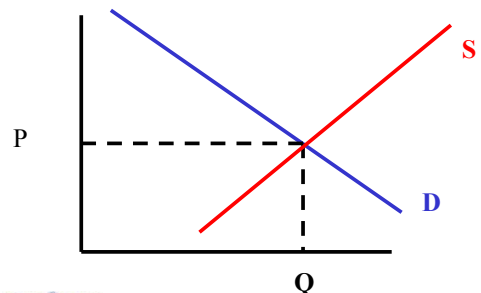

Competitive Diversity

- How can cost functions differ?
- Economic and Accounting Profits
- **Taxing a Competitive Industry**
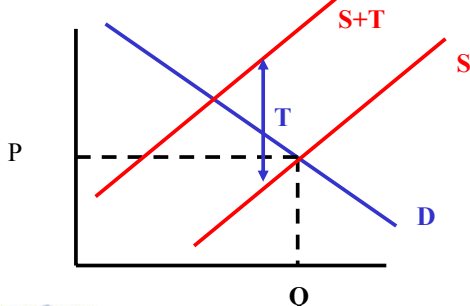- **Consumer and Producer Surplus**

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Taxing a Competitive Industry

A Tax with Horizontal Long Run Supply Curve

$P_{min} + T$

T

p_{min}

D

Q*   Q

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Upward Sloping Supply Curve

S

P

D

Q

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A Tax Increase

S+T
S
T
P
D
Q

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It Gets Shifted

S+T
S
P^C
T
P
P^S
D
Q*   Q

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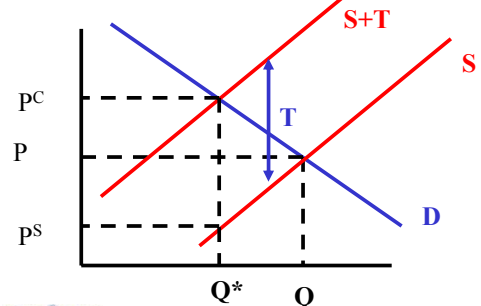
How Much Gets Passed

$$Percent\_to\_Consumer = \frac{\eta_s}{\eta_s - \eta_d}$$

How Much Gets Passed

$$Percent\_to\_Consumer = \frac{\eta_s}{\eta_s - \eta_d}$$

η_s	η_d	Percent
∞	Whatever	100
1	-2.0	33
1	-1.0	50
1	-0.5	67
0	Whatever	0

End

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