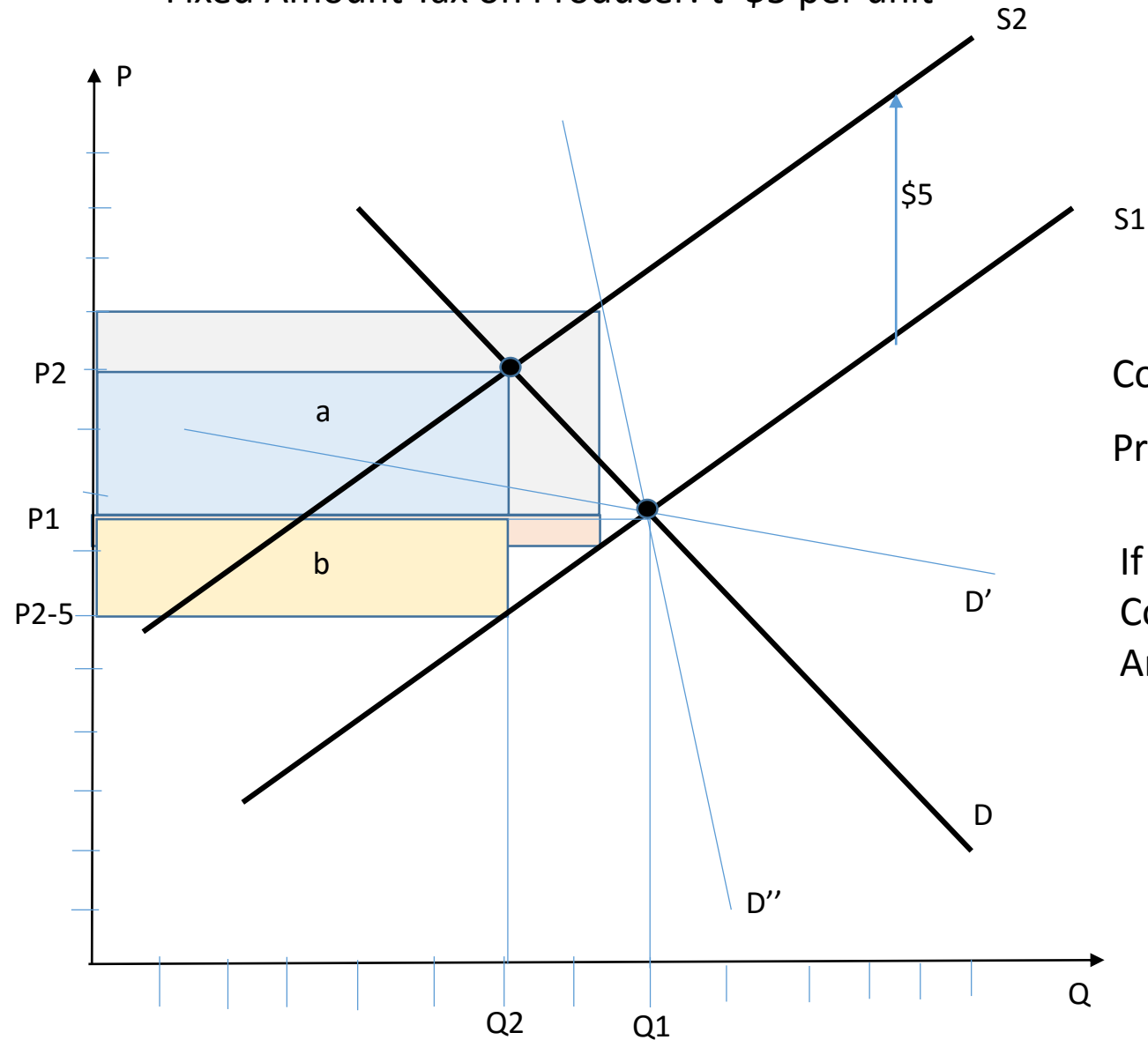


# Effect of Government's Tax on Equilibrium

- What effect does a tax have on equilibrium price and quantity?
- Is it true, as many people claim, that taxes assessed on producers are passed along to consumers? That is, do consumers pay for the entire tax?
- Do the equilibrium price and quantity depend on whether the tax is assessed on consumers or on producers?
- How does elasticity of demand and supply affect the consumer's share of tax burden?

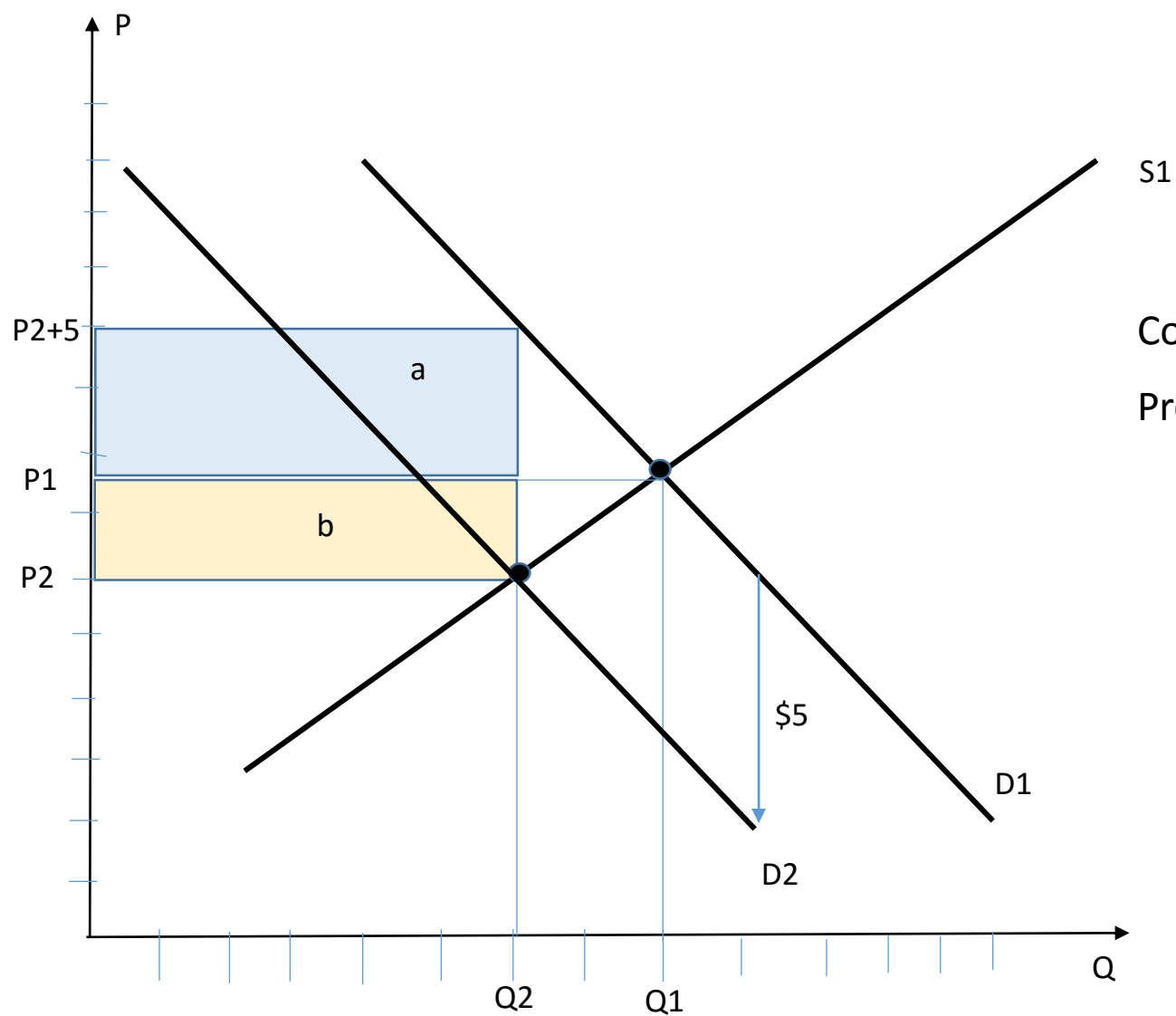
Fixed Amount Tax on Producer:  $t = \$5$  per unit



Consumer's share of tax =  $\frac{a}{a+b}$   
 Producer's share of tax =  $\frac{b}{a+b}$

If Demand is more inelastic ( $D''$ ),  
 Consumer's share of tax increases,  
 And Producer's share decreases.

# Fixed Amount Tax on Consumer: $t=\$5/\text{unit}$



$$\text{Consumer's share of tax} = \frac{a}{a+b}$$
$$\text{Producer's share of tax} = \frac{b}{a+b}$$