

Finrish Tax

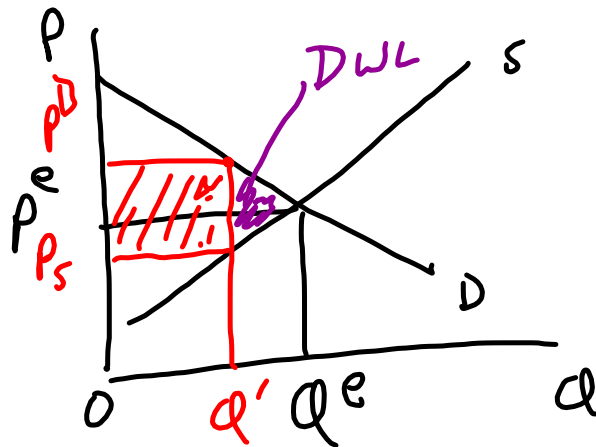
$$P_B \neq P_S$$

$$P_B - P_S = \text{tax}$$

$$\text{Revenue} (P_B - P_S) \cdot Q'$$

Policy objective \rightarrow min DWL

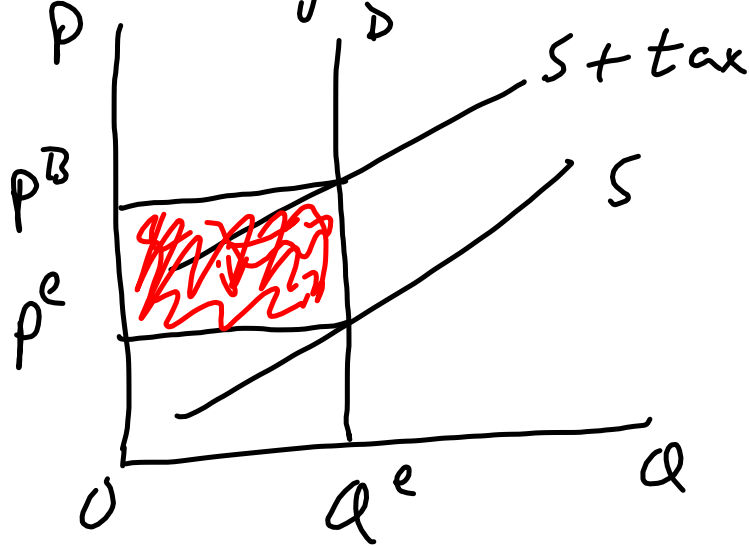
$$\text{or min } \frac{\text{DWL}}{\text{Tax Revenue}}$$



If D infinitely inelastic
 (no Q response to price
 change).

$$\eta = \frac{\% \Delta Q}{\% \Delta P}$$

$$P^S = P^E$$



Head tax

Poll tax

Tax Land - Henry George
Progress & Poverty, 1890

tax "rents" - profit from owning
 a scarce

Ramsey Rule t_i on good i
 t_j on good j

$$\frac{t_i}{t_j} = \frac{\eta_j}{\eta_i}$$

inverse elasticity rule
 tax more inelastic
 goods higher rate

Derived Demand. <

Hotel room derived from demand for trip

- [smaller share in total expense
- [lower elasticity

"importance of being unimportant"

- contractor builds house
- suppose price lightswitches doubles - # of switches won't change

text book:
derived from D for class + degree

Tax system →

Base - what to tax? B

Rate - how high t

Revenue target raise B (broaden tax base) lower t

Income -

Wealth - car

Sales - general

Alcohol -

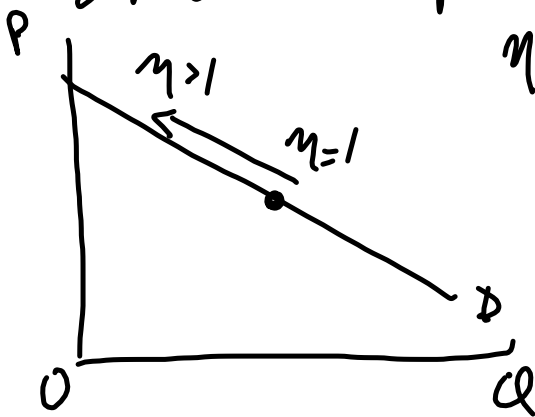
gas

Resources

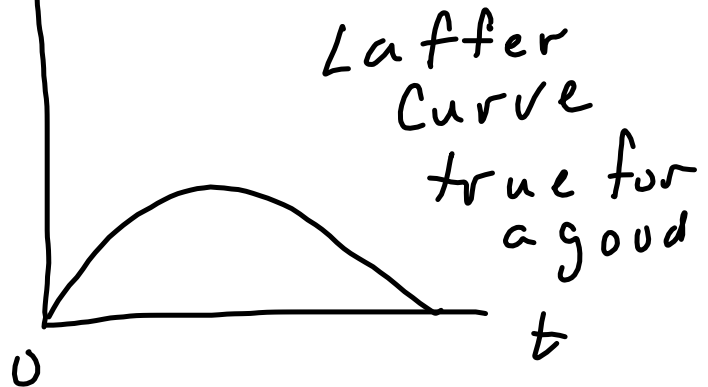
} exempt food

High rate \rightarrow High DWL Fig 6
 one good t varying.

$t \uparrow$ at some point Revenue \downarrow



$\eta \uparrow$ and increasing rate
 Revenue



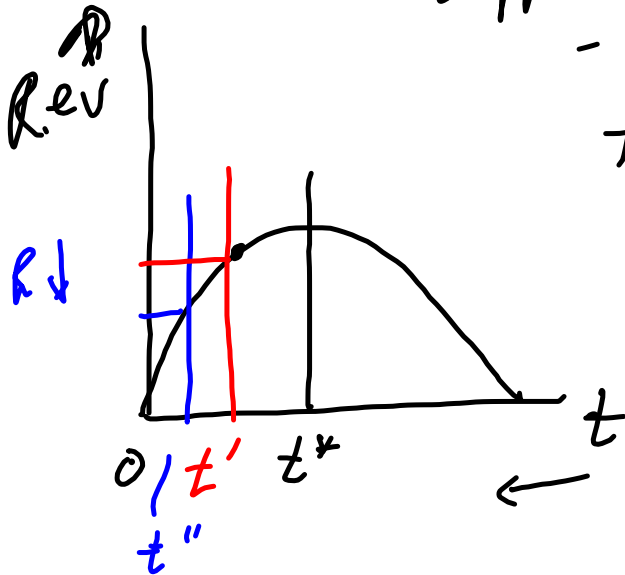
Laffer
 Curve
 true for
 a good

Aggregate (economy wide) - story not supported by data

- cut tax rate
tax revenue \uparrow
requires $t > t^*$

If present rate $< t^*$

$t \downarrow$ Revenue \downarrow



Chapters 10 + 11. Markets fail to provide goods

- markets require
 - property rights
 - use
 - exclude others
 - sell.
 - require right to exclude non payers
- necessary condition for market

- Consider - quiet -
- clean air
- clean water - exclude
- view effluent
- exclude others using your resource.

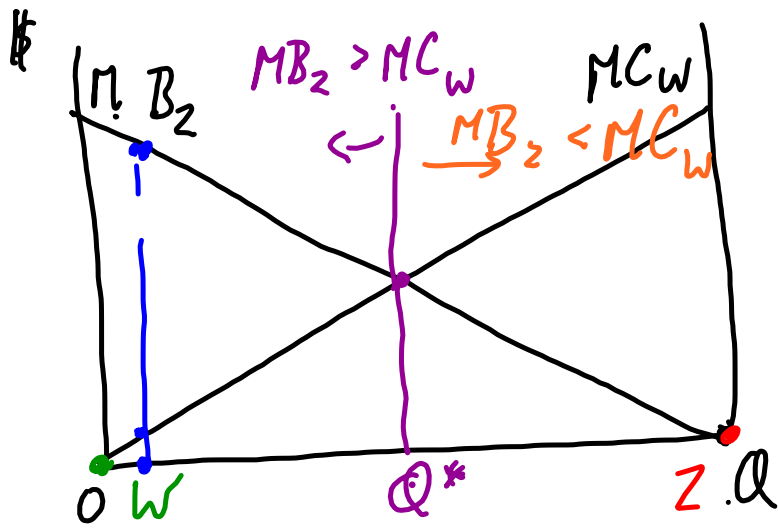
[property right to A taking right away from B]

Why reassign property right?
spillover. effect negative &
too large relative to benefit.

↳ Externality - transaction between
A & B imposes a cost
on & C not compensated.

C faces higher cost of own activities

How do we control externalities?
 goal is balance benefit with
 the cost.



Party Z + W -

Q - level
 of activity,
 Profit - as
 $Q \uparrow P \downarrow$

so marginal
 profit \downarrow
 MC on W as

$Q \uparrow$
 Z choose $MB = 0$
 W choose $MC = 0$