Test 1 -

Sect I - III - Expenditures
- why gov't? - property rights issues
- public goods / externalities
- decide? - public choice
political economy
- evaluating - BCA

Revenue - Taxation / user fee

omit → debt

→ seignorage   face value
- cost of production
seignorage

Tax - theory - 14, 15, 16 chapters

Tax System

Base? - what to tax?

Sources of income
- wages
- interest /dividends

Uses of income - spending

VAT - consumption

Rate? - average rate T
- marginal rate t

Revenue $= T \cdot$ Base

Base $\uparrow \cdot T \downarrow$ with same revenue

Base $\downarrow$ $T \uparrow$

Base broadening -

Aside - Bell J. of Economics 1975

Transitional gains trap

- policy → capitalized into household decisions
- change → reduce wealth of households as prices change

examples - New Zealand 1981

tax on new cars 140%

removing tax → efficient but wealth loss to households

- interest deductibility on mortages.
  - excessive investment in housing → owner vs renter

why broadening?

$P_B = P_S(1+T)$ P_B = Cost of producing good

T - per unit excise tax
- gasoline
- cigs.
- liquor

Buyer pays
$P_B - P_e$

Sellers gets
$P_e - P_s$

$Rev = (P_B - P_S) \cdot Q^T$

legal incidence - Seller

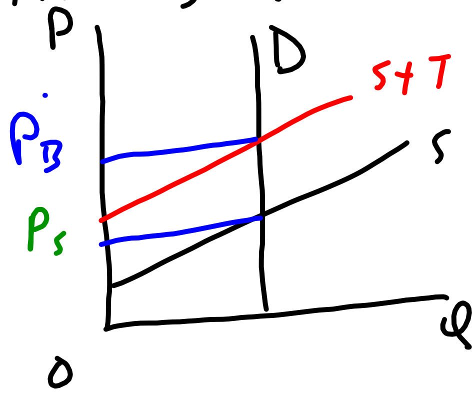
econ. " both

size of DWL → elasticities of D & S

inelastic D → DWL ↓

- tax efficiency ↑

Broaden base - rate ↓



η_{beef}

$\eta_{meat} < \eta_{beef}$

η = elasticity

min $(P_B - P_s)$ - min. tax wedge

Assume uniform tax rate → objective

broader base

Differential tax rates - by good.

- exploit differences in η across goods

$T_i \propto 1/\eta_i$ as $\eta_i \uparrow$ $T_i \downarrow$

$$\frac{T_i}{T_j} = \frac{\eta_j}{\eta_i}$$

Inverse elasticity rule

Ramsey tax rule

$$\text{Efficiency} = \frac{DWL}{TR}$$

- Congressional Budget Office

Council of Economic Advisors