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Applications: The Costs of Taxation

Figure 1 The Effects of a Tax

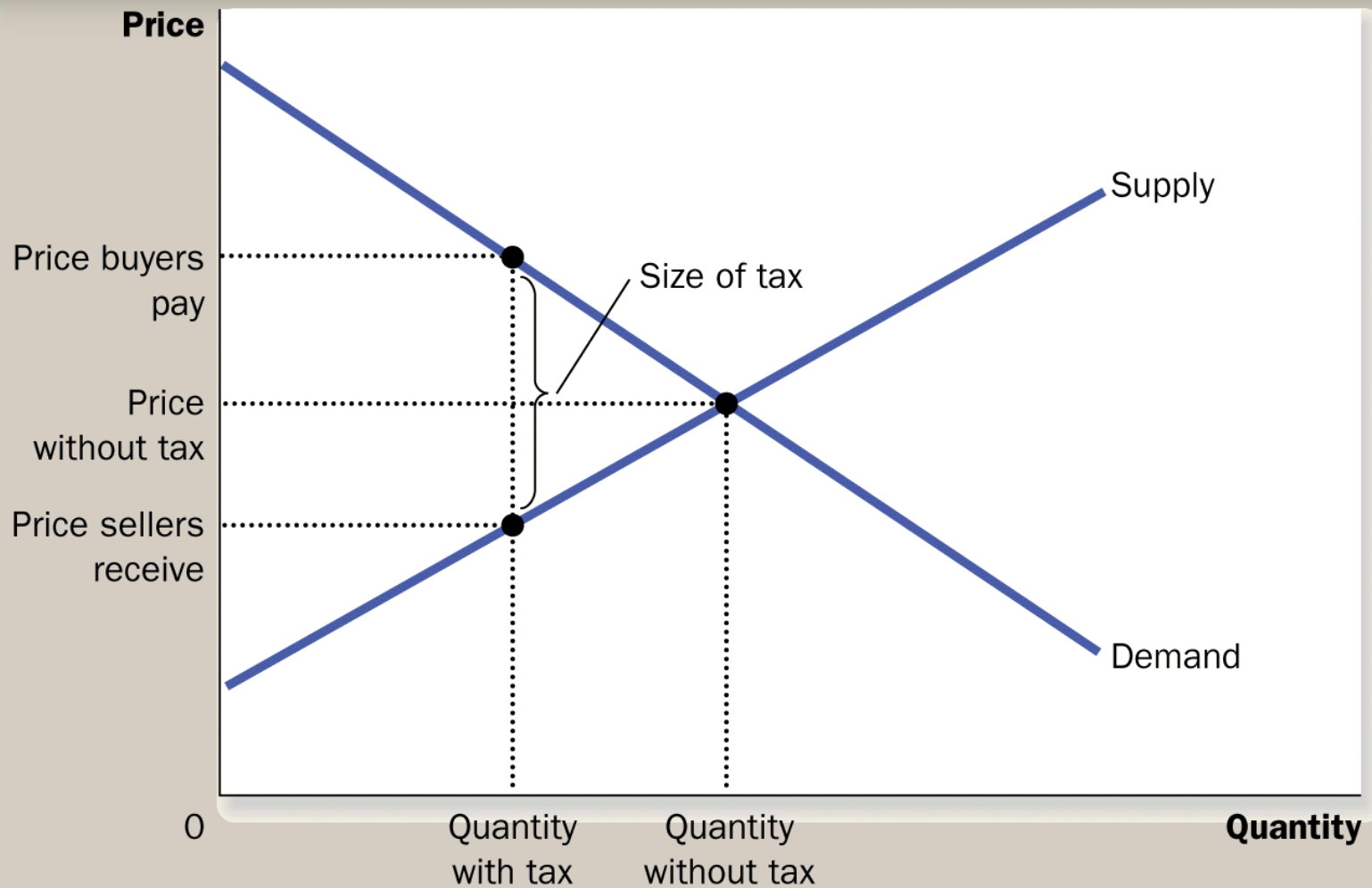


Figure 2 Tax Revenue

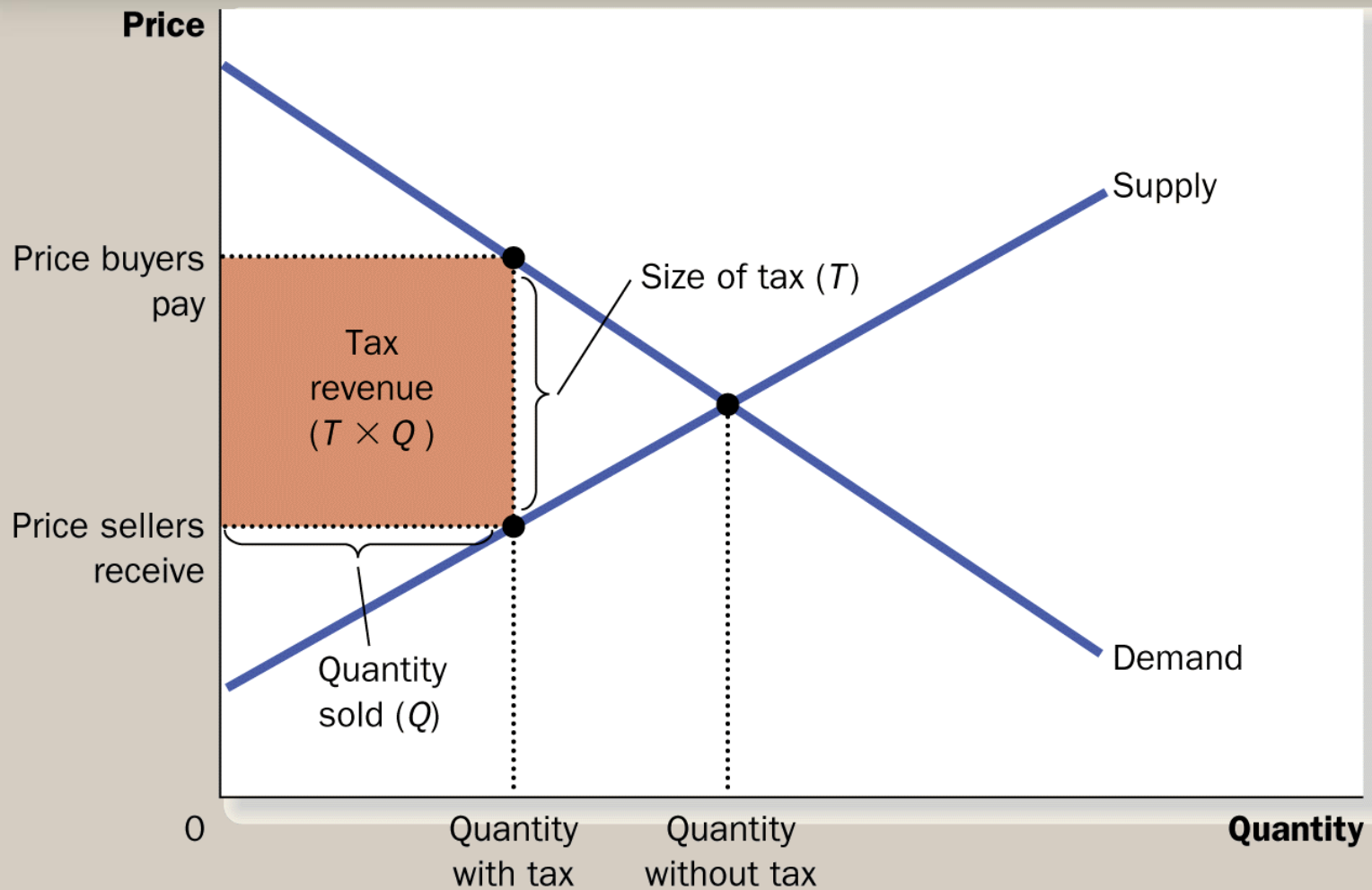


Figure 3 How a Tax Affects Welfare

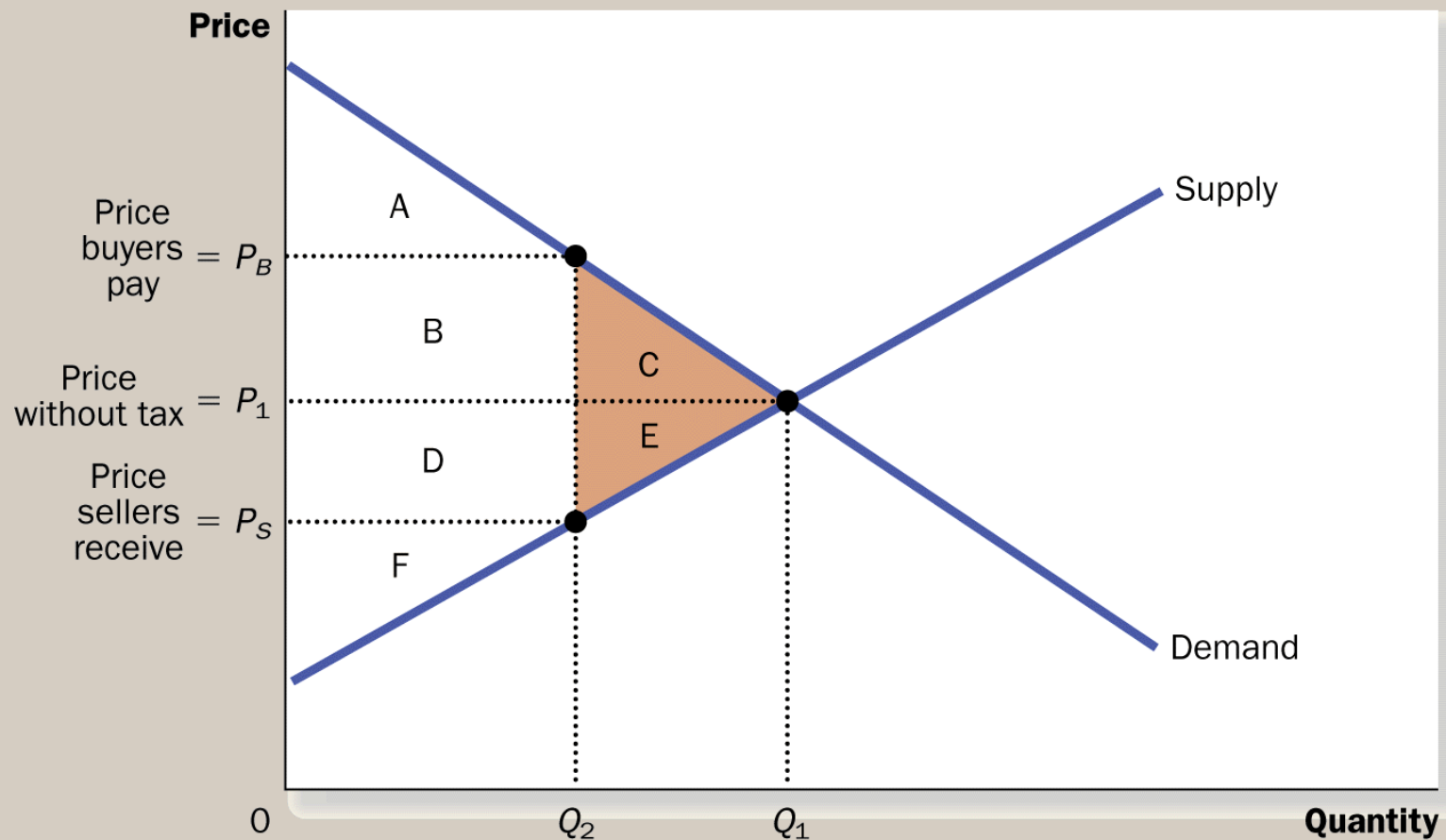


Figure 3 How a Tax Affects Welfare

	Without Tax	With Tax	Change
Consumer Surplus	$A + B + C$	A	$-(B + C)$
Producer Surplus	$D + E + F$	F	$-(D + E)$
Tax Revenue	None	$B + D$	$+(B + D)$
Total Surplus	$A + B + C + D + E + F$	$A + B + D + F$	$-(C + E)$

The area $C + E$ shows the fall in total surplus and is the deadweight loss of the tax.

Figure 4 The Deadweight Loss

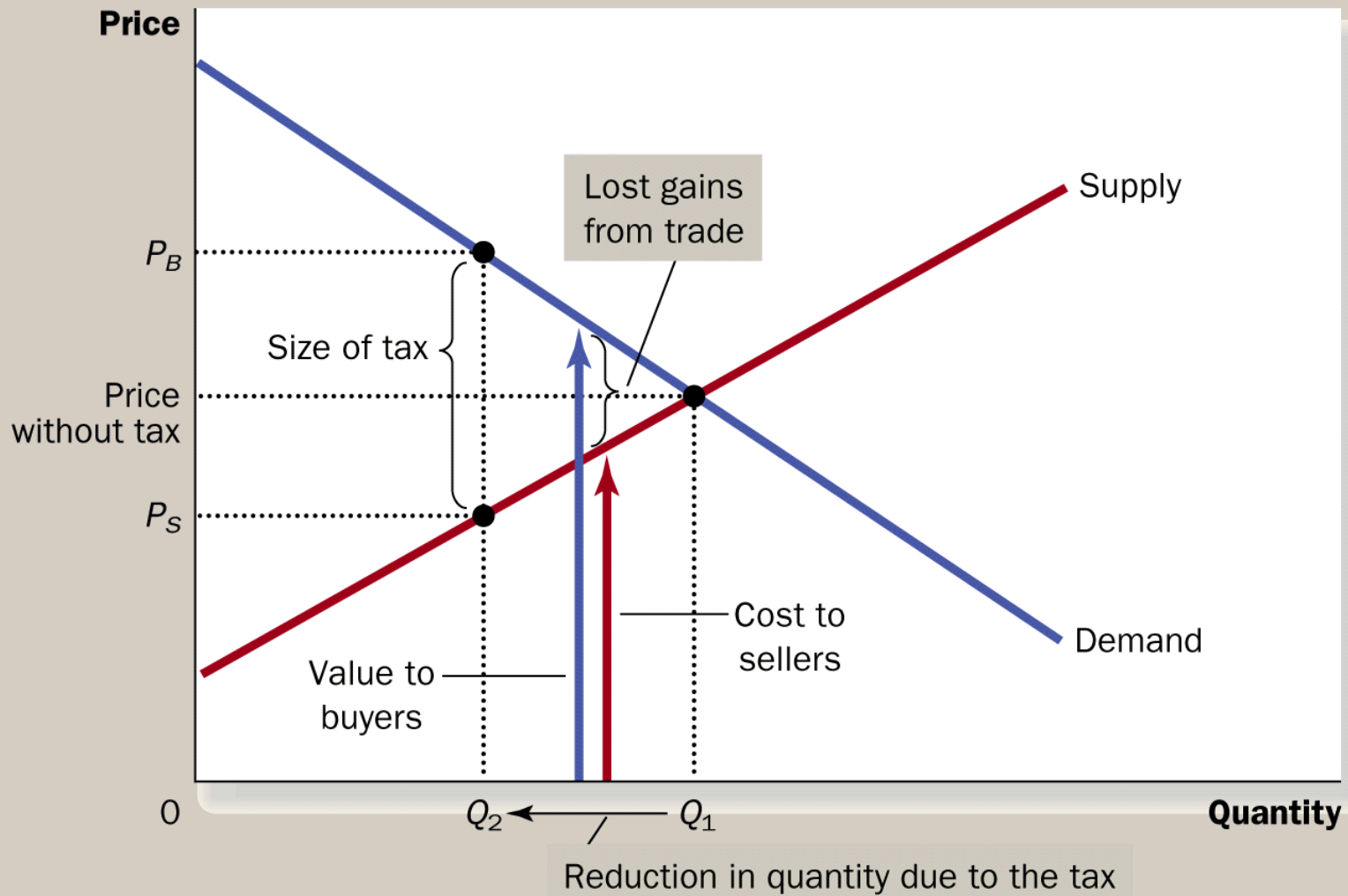


Figure 5a Tax Distortions and Elasticities

(a) Inelastic Supply

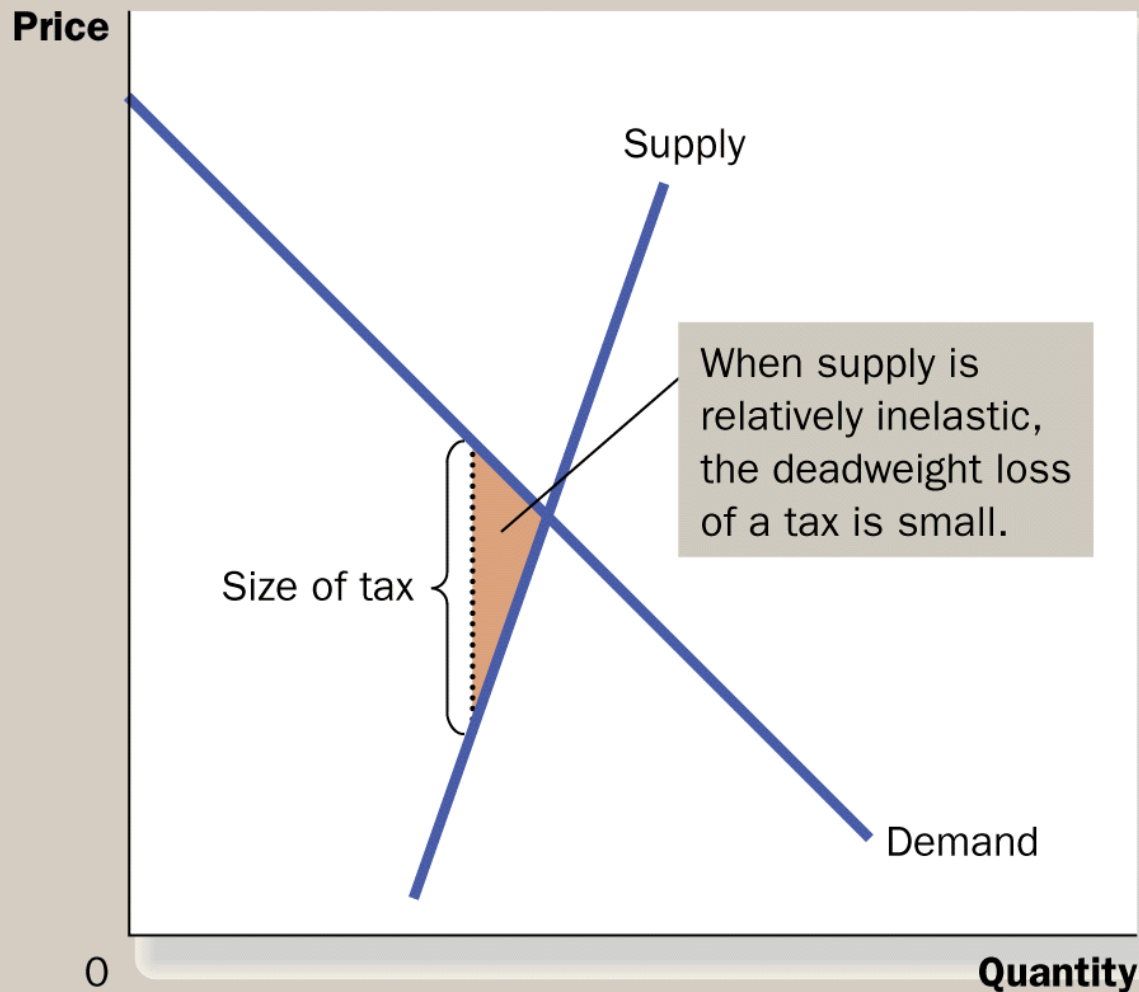


Figure 5b Tax Distortions and Elasticities

(b) Elastic Supply

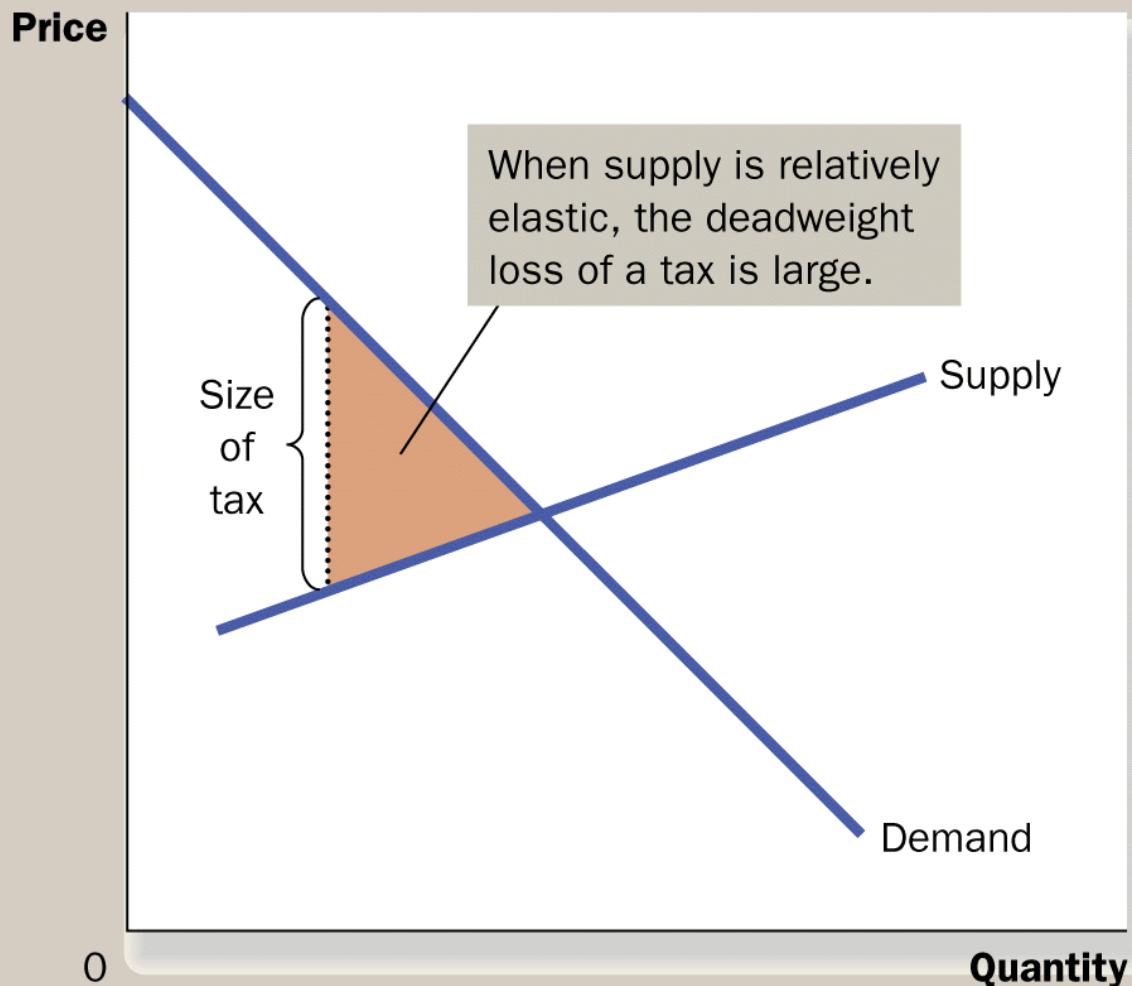


Figure 5c Tax Distortions and Elasticities

(c) Inelastic Demand

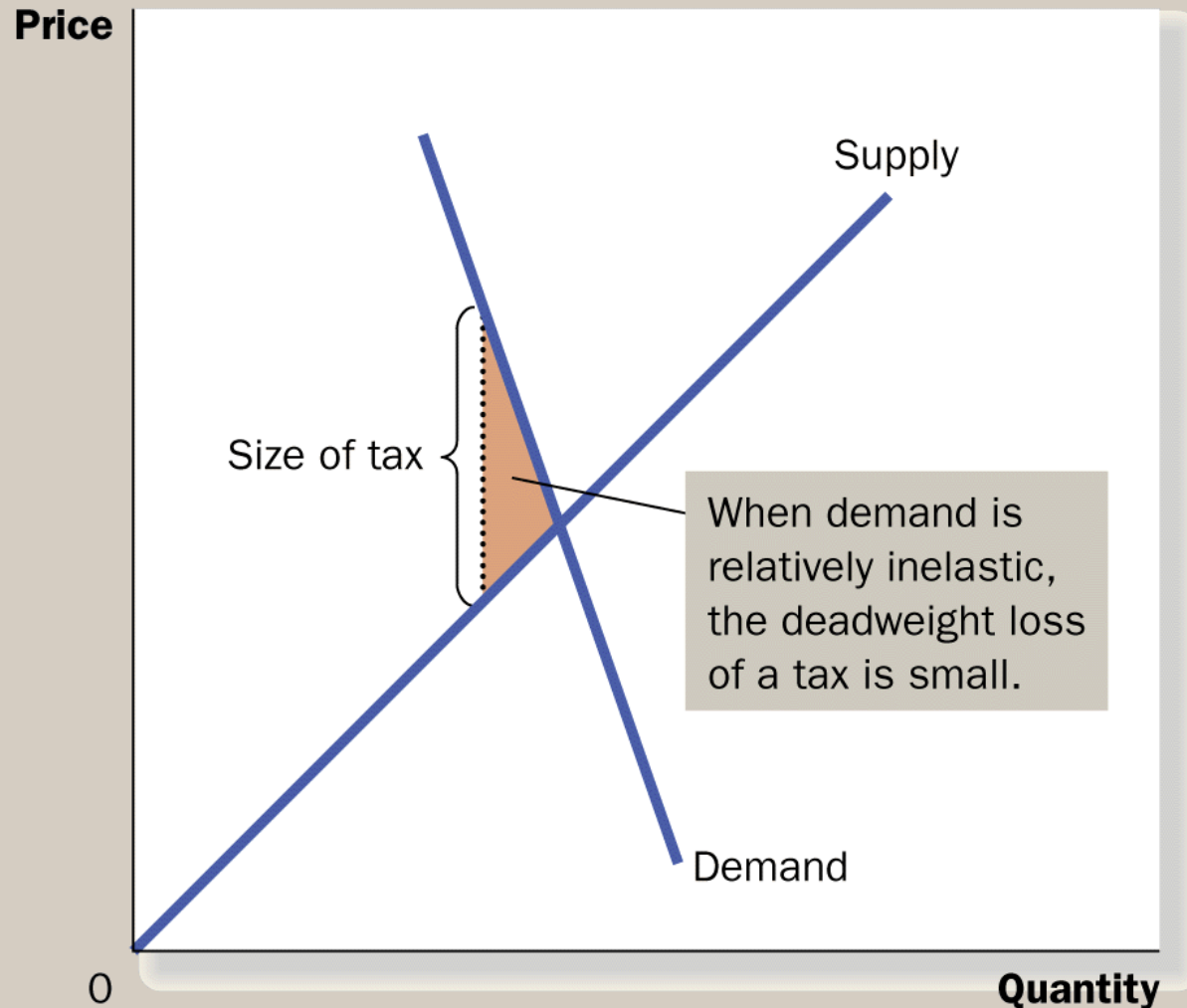


Figure 5d Tax Distortions and Elasticities

(d) Elastic Demand

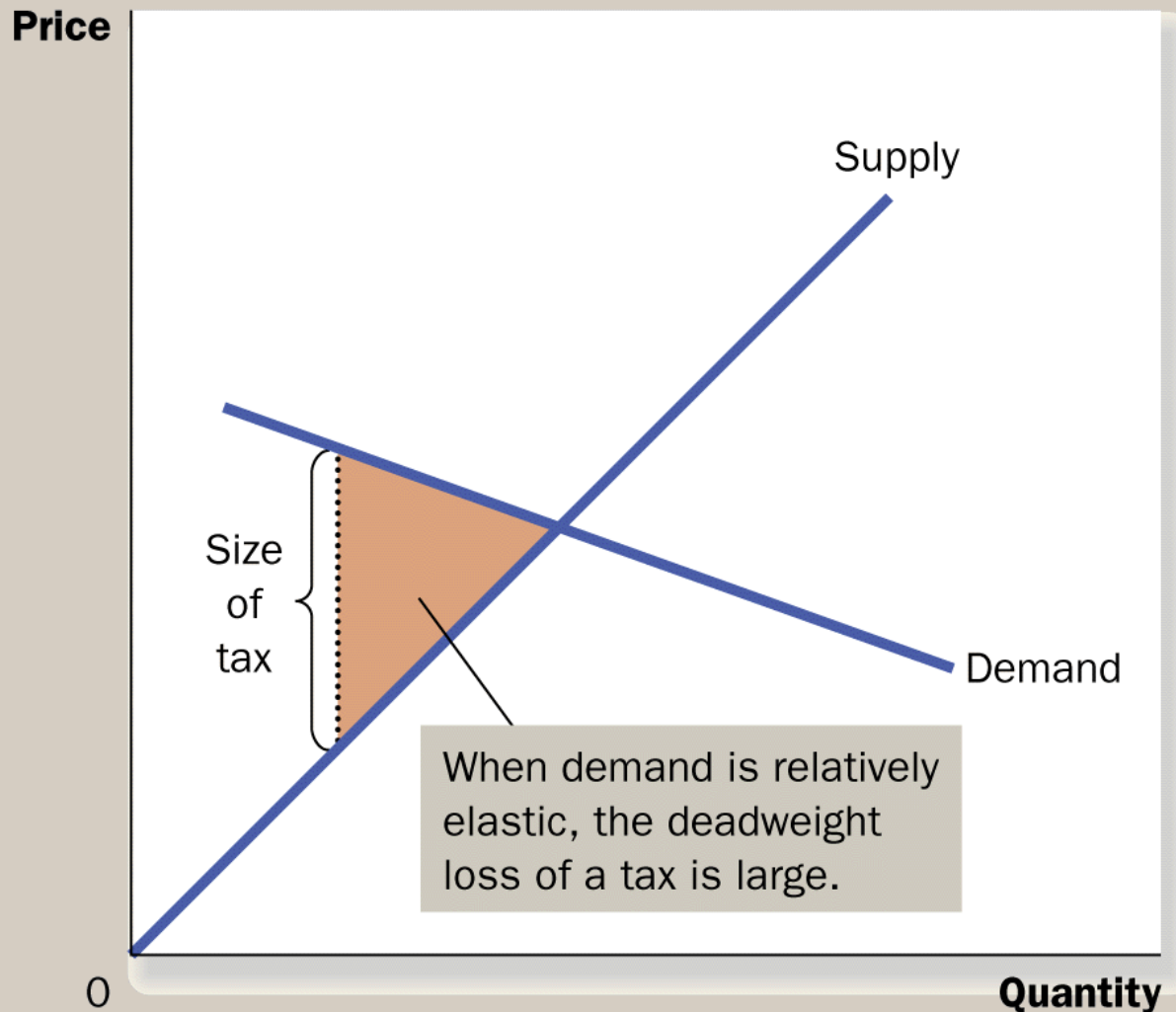


Figure 6a Deadweight Loss and Tax Revenue from Three Taxes of Different Size

(a) Small Tax

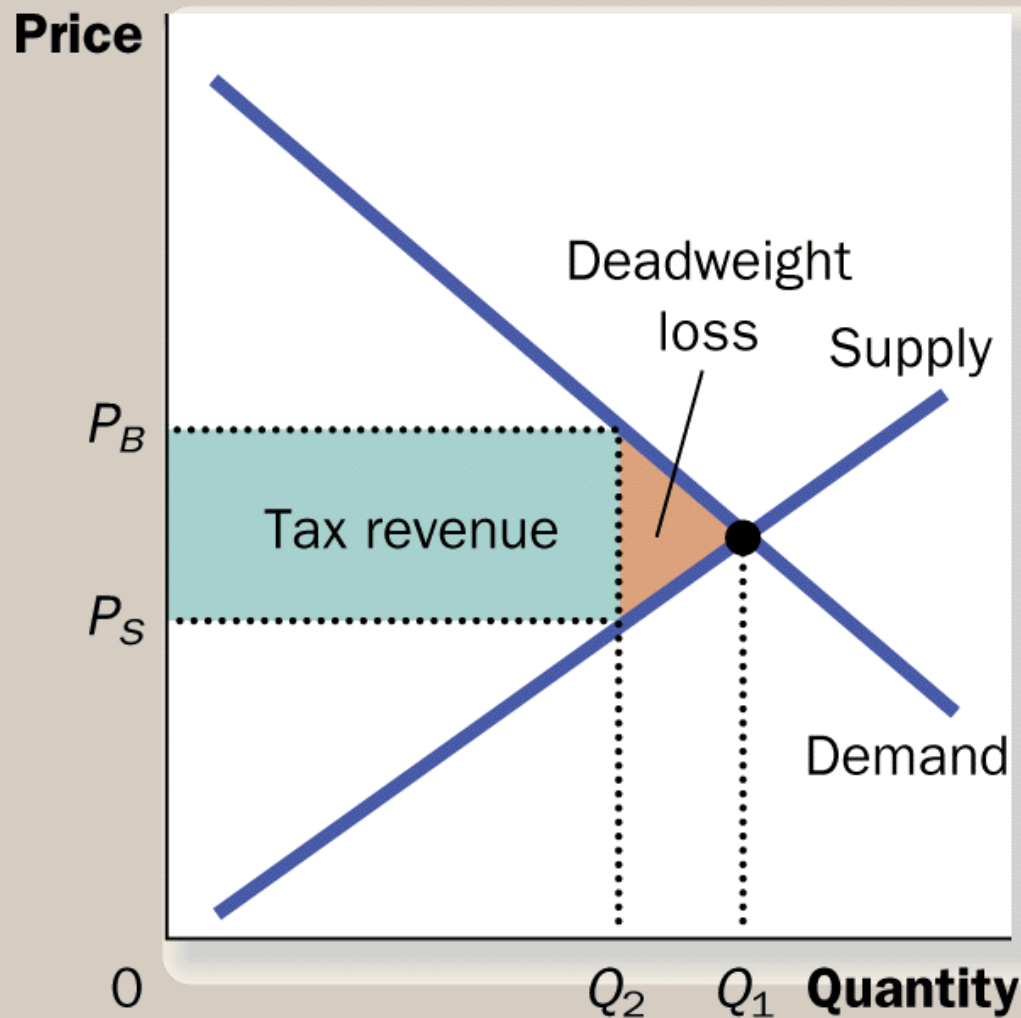


Figure 6b Deadweight Loss and Tax Revenue from Three Taxes of Different Size

(b) Medium Tax

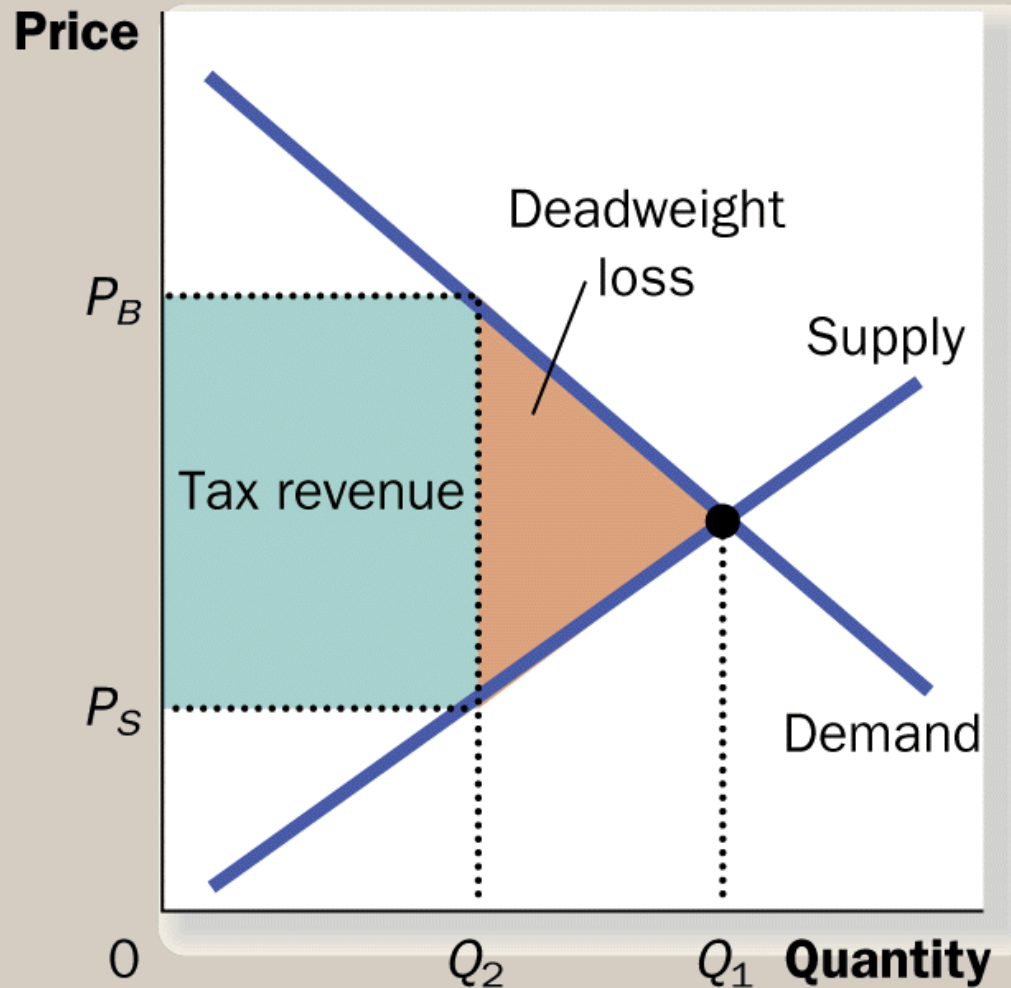


Figure 6c Deadweight Loss and Tax Revenue from Three Taxes of Different Size

(c) Large Tax

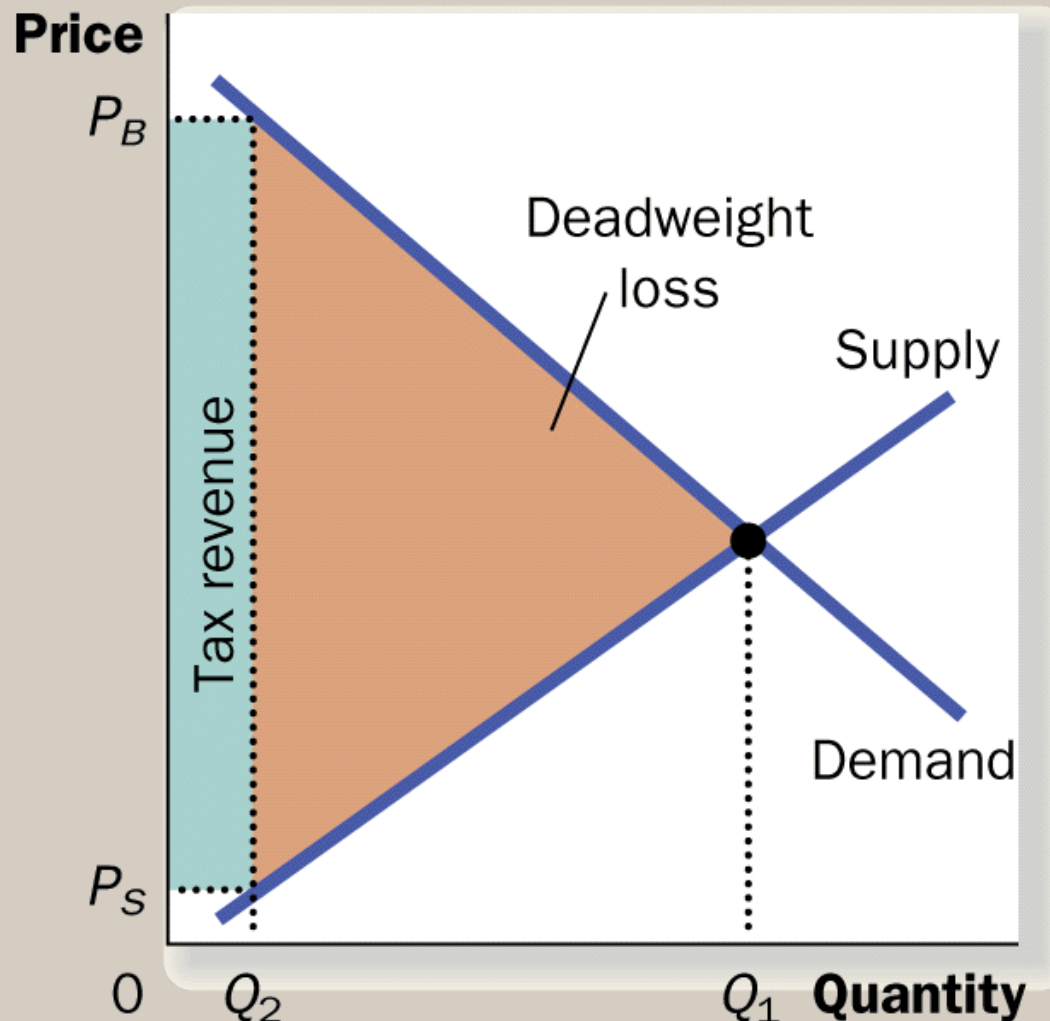


Figure 7a How Deadweight Loss and Tax Revenue Vary with the Size of a Tax

(a) Deadweight Loss

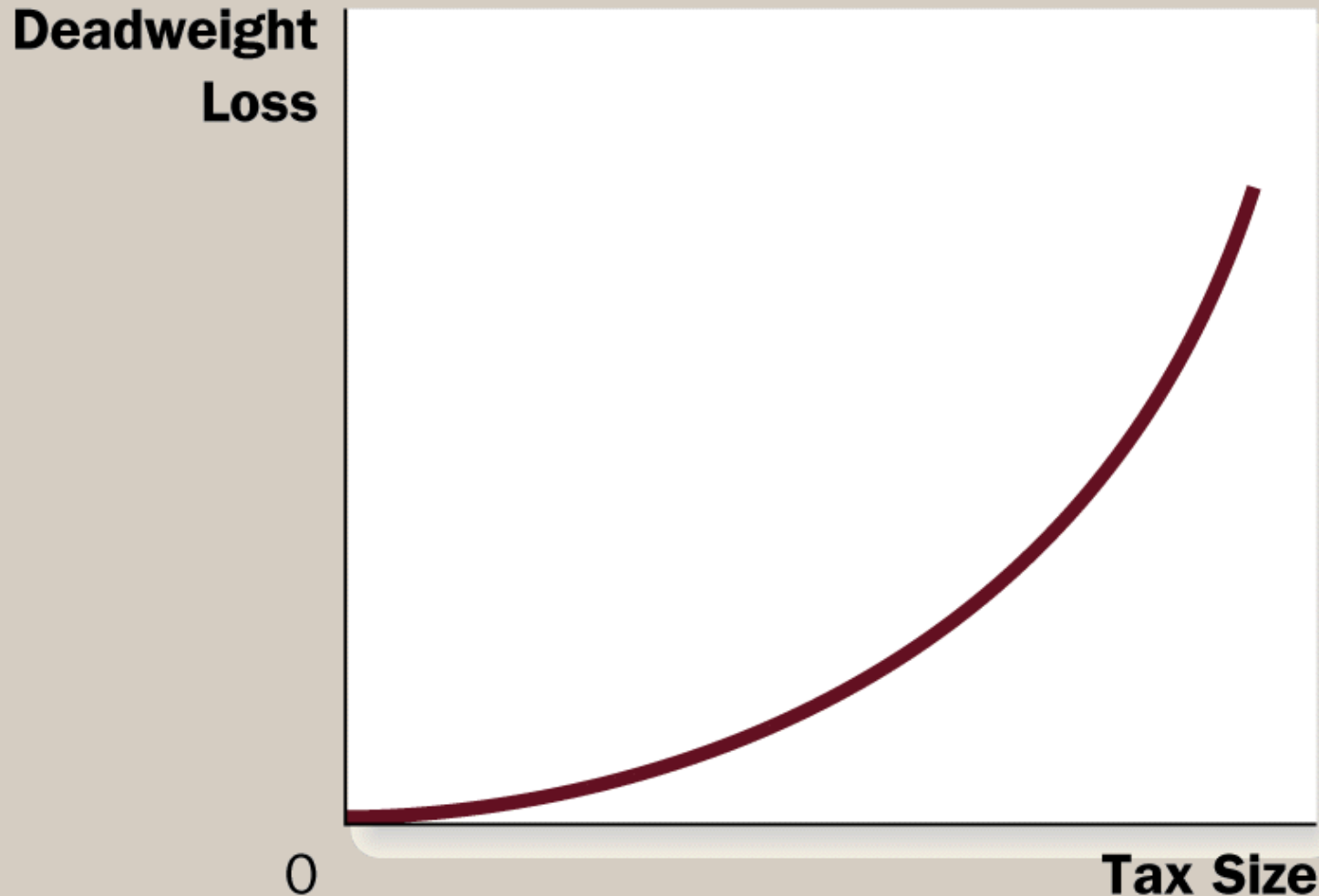


Figure 7b How Deadweight Loss and Tax Revenue Vary with the Size of a Tax

(b) Revenue (the Laffer curve)

