Lecture 6. In class problems

# AFTERNOON

10/6/2020



Inclustri demand are restaurant owners harmed? NT - higher end rest.

P

### elactic Lemand

are restaurant owners harmed ? YES -> facts food, inexponsive ford.

#### 2. Corporate Income Tax

The incidence of the corporate income tax is one of the most heavily debated issues in economics. The United States has just seen substantial corporate tax reform. In the context of this tax reform, corporate tax rates have fallen. Discuss which parties may bear the burden of this tax, and who has therefore benefitted most from its decline.

Don't discuss how the burden of the tax is shared – just identify who could possibly bear the burden of the tax, and who could, therefore, benefit from potential tax changes.

owners of capital of the same fire	m (≈ stockholders)
workers of the corporation ]	government as a
owners \$ workers from input firms	rceipient of two
consumers - if they are industric	revenue or loss

# Q1. Demand for rutabegas: Q= 2000-100p

## Supply for : i Q = -100 +200 P

# \$2/unit tox on rutabegas. Who bears statutory Incidence? Economic incidence?



# Find original equipm P & Q:

2000 - 100 P = -100 + 200 P

2100 = 300 P

$$2000 - (00) = Q_0$$
  
 $2000 - (00(3) = Q_y$ 

#### Find the new demand curre, when P intercept decreases by 2.

y=mxtb decreasing by 2

demand og n equivalent

$$P = -\frac{r}{100}Q + 20 \iff Wlo fax$$

demand curve w/ tax

 $P_{\text{new}} = P_{\text{old}} - 2 = \frac{-1}{100} Q + 20 - 2 = \frac{-1}{100} Q + 18$ 

Find new egbm: Set new demand = original supply

D

$$\begin{array}{c|c} P &= \frac{1}{100} Q + 18 \\ \left(\frac{1}{100} Q = 18 - P\right) 100 \\ Q &= 18 - P\right) 100 \\ Q &= 1800 - 100P \end{array}$$

Set then equal (800 - 100p = -100 + 200p) |900 = 300pP = 19/3

#### Incidence:

## consumer burden: 2 - (7 - 1/3)

### producer burden: 7 - 1/3

# producer b + consumer b = tax $<math>(7 - \frac{19}{3}) + 2 - (7 - \frac{19}{3}) = 2$