

Learning Objectives

Chapter 8

In this chapter you will

- Look at the meaning of deadweight loss
- Examine how taxes reduce consumer and producer surplus
- Learn the meaning and causes of the deadweight loss of a tax
- Examine the determinants of deadweight loss
- Consider why some taxes have larger deadweight losses than others
- Examine how tax revenue and deadweight loss vary with the size of a tax

You should be able to

- Place a tax wedge in a supply and demand graph and determine the tax revenue and the levels of consumer and producer surplus
- Place a tax wedge in a supply and demand graph and determine the value of the deadweight loss
- Show why a given tax will generate a greater deadweight loss if supply and demand are elastic than if they are inelastic
- Demonstrate why some very large taxes generate little tax revenue but a great deal of deadweight loss