

Learning Objectives

Chapter 6

In this chapter you will

- Examine the effects of government policies that place a ceiling on prices
- Examine the effects of government policies that put a floor under prices
- Consider how a tax on a good affects the price of the good and the quantity sold
- Learn that taxes levied on buyers and taxes levied on sellers are equivalent
- See how the burden of a tax is split between buyers and sellers

You should be able to

- Describe the conditions necessary for a price ceiling to be a binding constraint
- Explain why a binding price floor creates a surplus
- Demonstrate why a tax placed on a good generally reduces the quantity of the good sold
- Demonstrate why the results are the same when a tax is placed on the buyers or sellers of a good
- Show whether the buyers or sellers of a good bear the burden of the tax when demand is inelastic and supply is elastic