

Fairness in taxation:

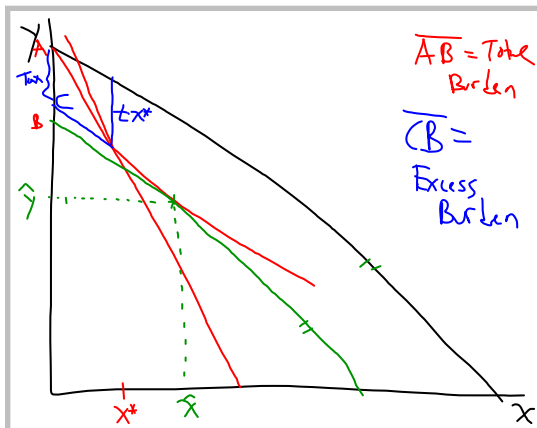
- * NPR - Kaker survey
- * Stenrod

Efficiency in taxation:

- * Total burden, excess burden of a tax.
- * Optimal commodity tax problem: what properties should a system of commodity taxes have if it raises given revenue and minimizes excess burden.
- * Optimal income tax problem.

Total burden, excess burden to an individual.

$U(x, y)$, tax on X , price rises by the full amount of the tax (for example - other incidence assumptions give same basic picture).

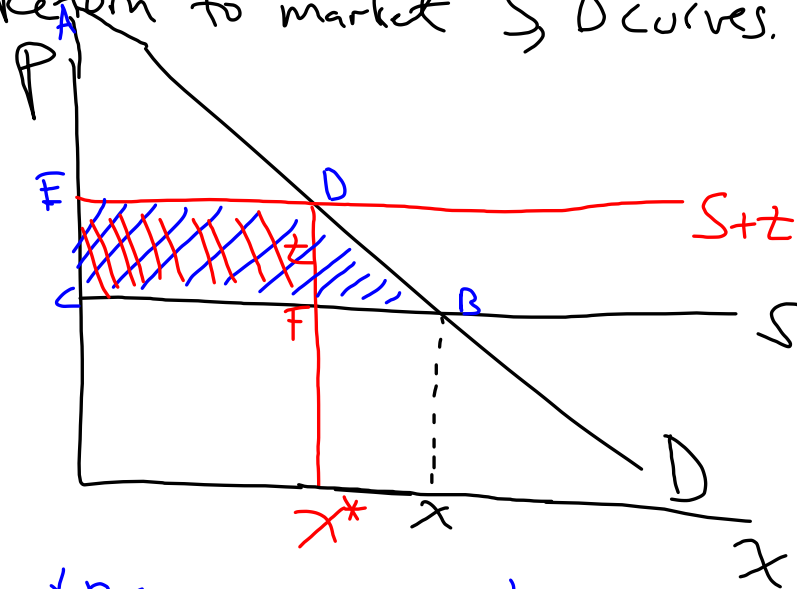


Real distinction between my welfare loss from paying taxes ("dead income") and from facing changed relative prices.

In the ice-cream story, the entire welfare loss is from changed relative prices (excess burden).

This adds an additional factor to the analysis of "the burden" of taxation, on top of who faces higher prices or pays the (monetary) tax.

Return to market S & D curves.



ABC = original consumer surplus

ADE = post tax consumer surplus.

Total Burden of tax $\approx ABC - ADE$
 $= EDBC$, trapezoid.

Tax revenue = $EDFC$

Excess Burden = DBF (triangle)