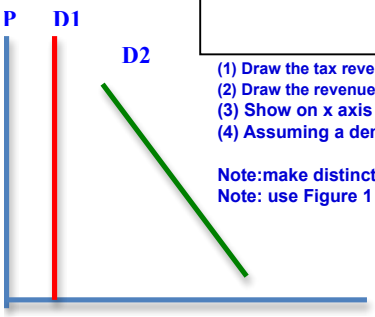
SYLLABUS REFERENCE 1.3 (Interactive Worksheet)
Taxes+revenues+elasticity : Some Problems

Webnote 133

(A) Which demand line best represents addiction – D1 or D2?
Answer in figure 1 below.

Task 1: (A) + (B)

Fig. 1



(B) Then using the same graph (D1, D2) answer the questions 1-4 below but you need to draw a shift in supply on this graph. Assume S1 shifts to S2 because of a indirect tax – not drawn on diagram.

(1) Draw the tax revenue for government if market demand is D1
(2) Draw the revenue for firm after tax if market demand is D2
(3) Show on x axis the welfare loss due to the tax-use D2 here.
(4) Assuming a demerit good does the tax work for D1?

Note:make distinction b/n elastic and inelastic demand here
Note: use Figure 1 for this work.

Answers to 1-4

Figure 1: Supply and demand and indirect tax increase

[redacted]

Task 2

On your Task 1 diagram draw welfare loss /deadweight loss triangle as a result of the tax increase. Use d 2 above for this.

[redacted]

Task 3

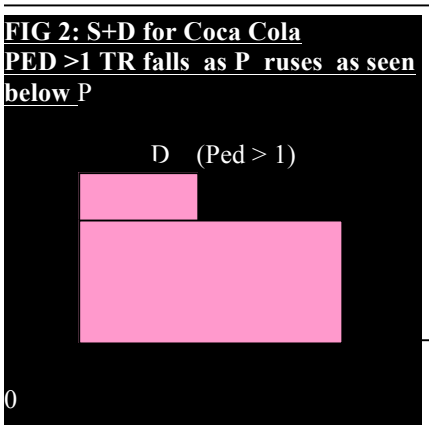
HL paper 1 2010- May

1a Explain the importance of price exasticity of demand and cross elasticity demand for business decision making. 10/25

- Identify 'best' diagram
- Best 'examples'

Task 3

FIG 2: S+D for Coca Cola
PED >1 TR falls as P ruses as seen below P



Answer

Webnote 133

Remove Boxes for answers

Task 4

HL paper 1 2010- May

1b Studies have shown that the demand for tobacco tends to be highly inelastic. Evaluate the view that governments can best reduce smoking by substantially increasing taxes on cigarettes.
15/25 marks

- **Identify 'best' diagram**
- **Best 'examples'**

Answer

Task 5

HL paper 2 2006- May

Define cross elasticity of demand and using diagrams explain what determines whether cross elasticity is positive or negative. 10 marks

- **Identify 'best' diagram**
- **Best 'examples'**

Answer