Webnote 138

Deadweight Loss

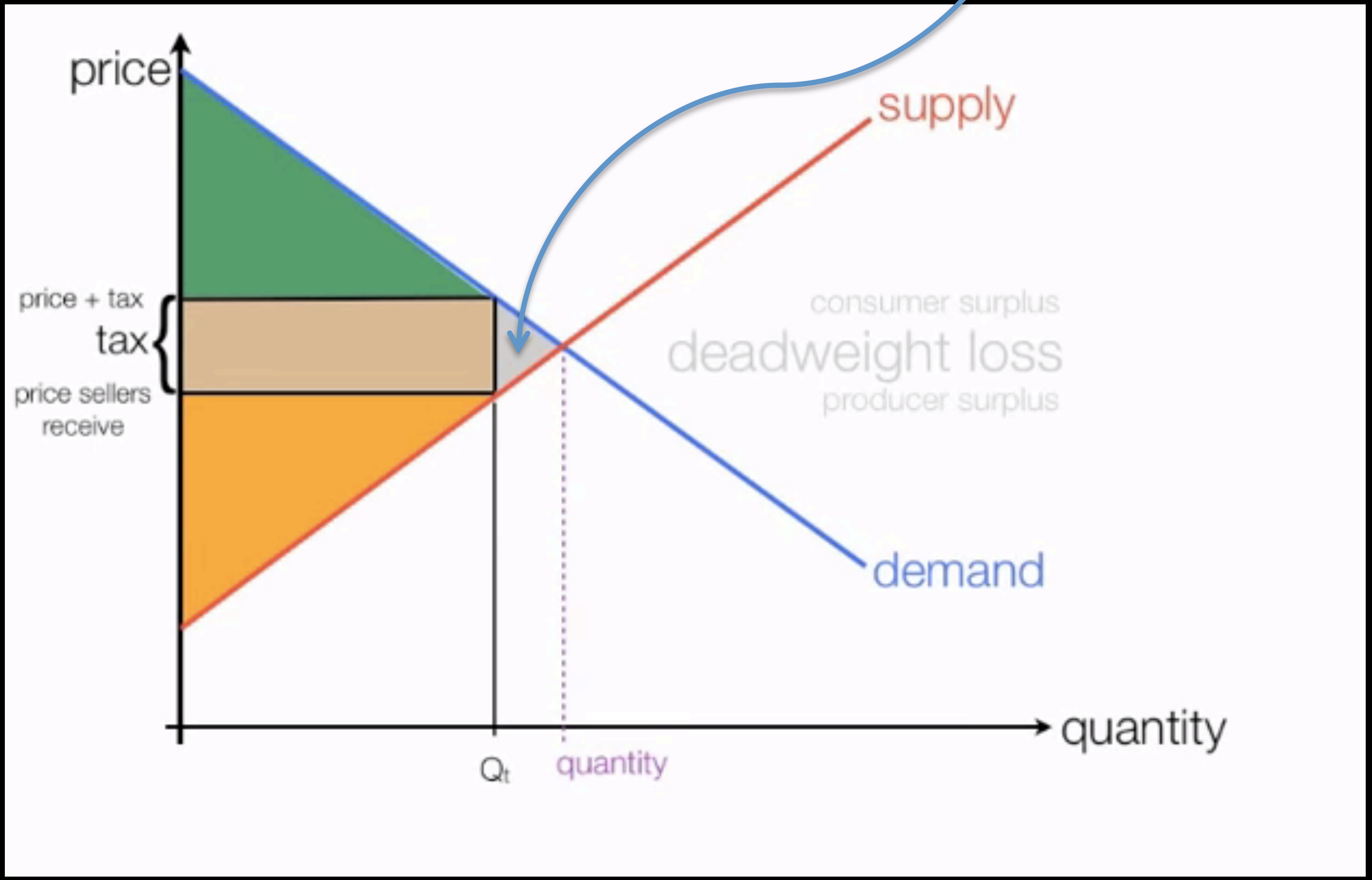
After indirect taxation

Deadweight Loss

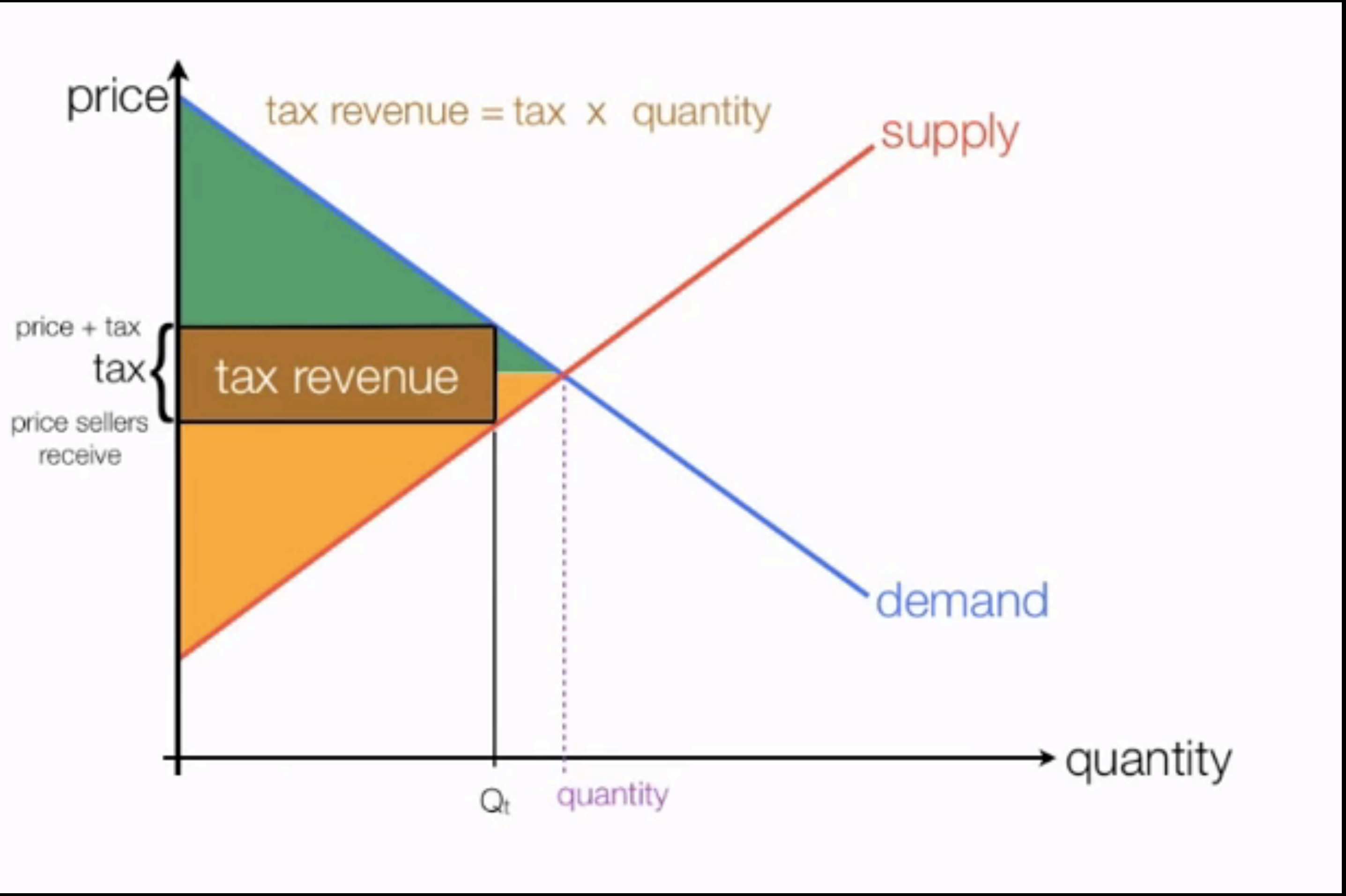
- In economics, a **deadweight loss** (also known as **excess burden** or **allocative inefficiency**) is a loss of economic efficiency that can occur when equilibrium for a good or service is not achieved or is not achievable. Causes of deadweight loss can include monopoly pricing (in the case of artificial scarcity), externalities, taxes or subsidies, and binding price ceilings or floors (including minimum wages). The term deadweight loss may also be referred to as the "excess burden" of monopoly or taxation.
- Source: wiki

Deadweight Loss

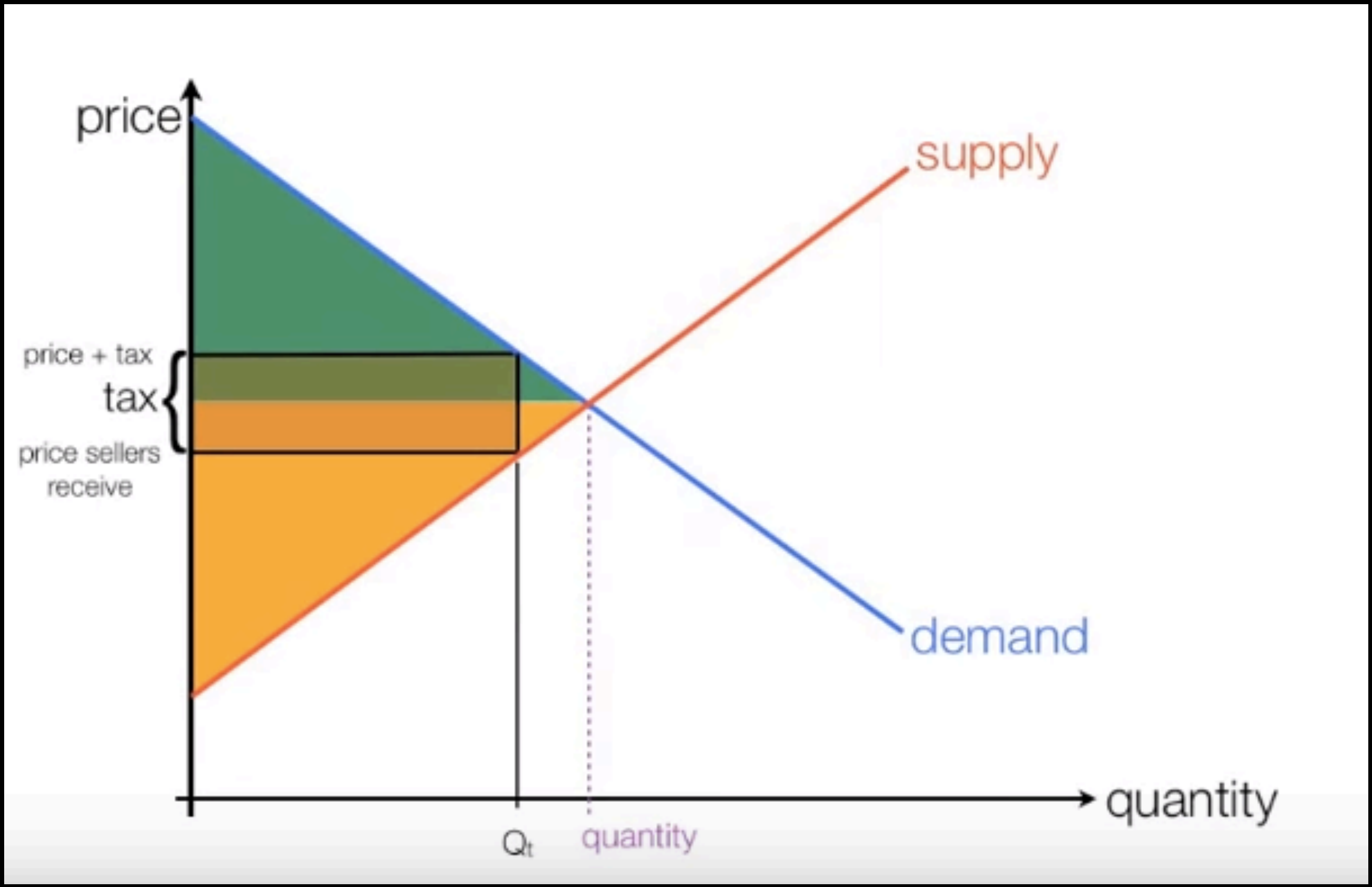
Deadweight Loss = cost to society due to reduction in market size as a result of some intervention (indirect taxation in this instance)



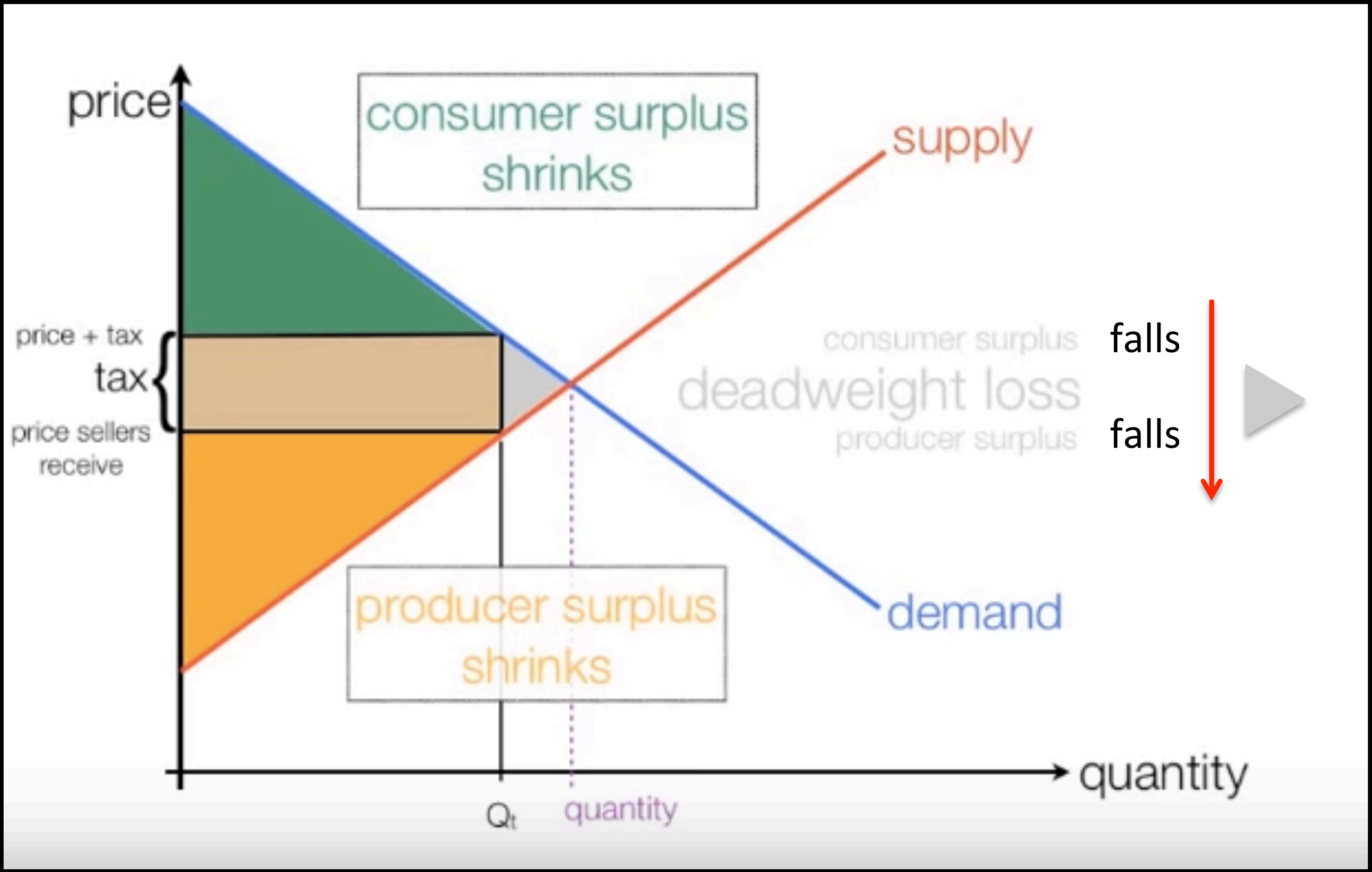
Deadweight Loss



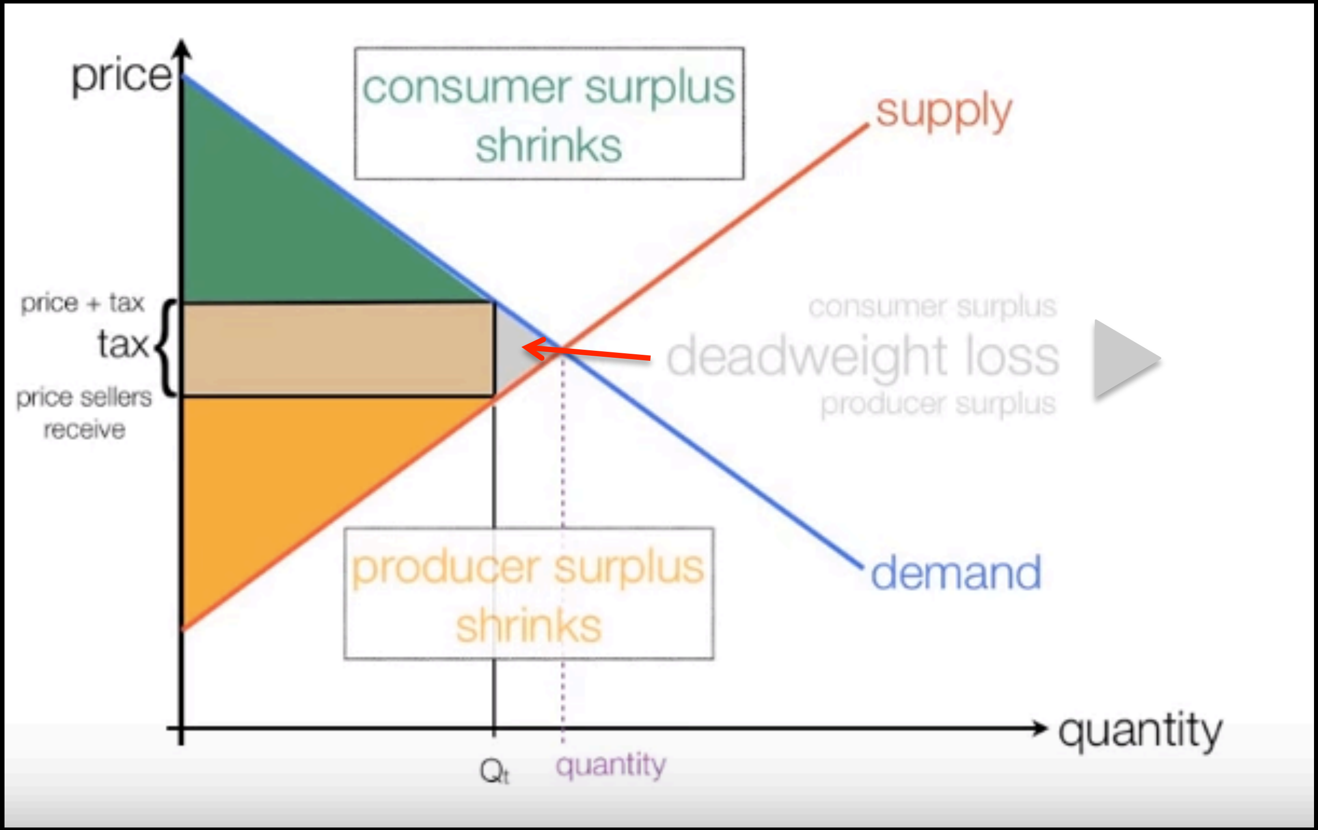
Deadweight Loss



Deadweight Loss



Deadweight Loss



Outcome: markets get smaller due to indirect taxation (gray triangle or quantity reduction on X axis. Governments must understand this as a consequence of intervention i.e. markets shrink as a result of taxation