**Taxation, PED and calculations**



1. What is the initial (pre-tax) equilibrium price and quantity?
2. The government **imposes a tax of £3 per unit**. The new supply schedule is shown in the right hand column of the table – less is now supplied at each and every market price. Identify the new equilibrium price after the tax has been imposed:
3. Explain why the new equilibrium (market) price **is not simply £3 more** than the old equilibrium price (before the tax was introduced).
4. Calculate the **total tax revenue** going to the government
5. Calculate how much of the total tax revenue is being paid by the **consumer**?
6. Calculate how much of the total tax revenue is being paid by the **producer**?
7. How have consumers been affected by this tax? Refer to consumer surplus/welfare in your answer.

**Now let’s analyse the impact of PED upon the incidence of tax**

1. Draw and comment upon the incidence of taxation for a product with an **inelastic** demand curve

Explain what might cause the incidence of tax to look like this for a product with an inelastic demand curve.

1. Draw and comment upon the incidence of taxation for a product with an **elastic** demand curve

Explain what might cause the incidence of tax to look like this for a product with an elastic demand curve.

**A-Level past paper question**

**The specification requires students to calculate revenue and the incidence of tax…**



Calculate the **total incidence of tax** on consumers. You are advised to show your working. (2)

Calculate the **total tax revenue**. You are advised to show your working. (2)

**Mr Wilson’s Thinking Further Challenge…** Calculate total revenue before and after the tax. What does your answer suggest about this section of the demand curve, in terms of elasticity?