

HANDOUT #4

Introduction to Microeconomic Analysis

Article Analysis #3:

Topics: Price Elasticity of Demand, Tax Revenue, Burden of Taxation, Supply and Demand Analysis, Economic Efficiency, Normative Economics, Positive Economics, Equity or Fairness

Examine the microeconomic issues raised in the New York Times Article “States Look at Tobacco to Balance the Budget,” by Shaila Dewan, March 20, 2009

(<http://www.nytimes.com/2009/03/21/us/21tobacco.html?ref=us>). Your article analysis should address the following:

- A. Why were States considering increases in the tax on tobacco as a means by which to increase the amount of tax revenue collected? What assumption(s) underlie this policy option for increasing tax revenue?
- B. Calculate the price elasticity of demand for tobacco based on the information provided in the article. Based upon your calculation, what will be the impact of an increase in the sales tax on tobacco on total tax revenue?
- C. Who do you hypothesize, based upon your understanding of elasticity and tax burdens, will incur a greater burden of the increased tax on cigarettes, consumers or producers?
 - Indicate any assumptions that underlie your analysis.
 - Represent the increase in the sales tax in a supply and demand diagram indicating impact on equilibrium price and quantity.
 - Indicate the relative share of the tax paid by producers and consumers.
- D. What are the normative economic issues raised in this article?

Your article analysis should:

- Be typed
- Include graphical analysis and numerical calculations. These representations may be hand-drawn and hand-written but must be neat and must be in context of your analysis. The text in your analysis should refer to the graphical and mathematical representation presented.
- Include an introductory paragraph that introduces the ideas of taxation, tax revenue and elasticity. Your introduction should detail what your article analysis will analyze and how your paper will proceed.
- Address the idea of tax burden and why the individuals incurring the tax burden may or may not be the same as the individuals or entities responsible for paying the tax.
- be understandable to non-economists
- demonstrate your ability to explain the relationship between tax rates, tax revenue and elasticity of demand.
- Include a conclusion summarizing your analysis.