

HANDOUT #2

ORIGINAL ASSIGNMENT

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?
- 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?
 - 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?