



- the more inelastic demand is the more the burden is faced by consumers.

C. Criteria for effective Taxes

1. Equity, fairness, but what is fair?

- can have tax loopholes

2. Simplicity

a. Income Tax: very complex not simple

b. Sales Tax: very simple

3. Efficiency

- easy to administer, reasonably successful.

- income tax: very efficient: IRS

- toll booths very inefficient

D. Two Principles of Taxation

1. Benefit Principle: people should pay in proportion to the benefits they receive.

Ex: Gas Tax

2. Ability to pay Principle: people should be based on their ability to pay.

Ex: Income Tax