

VISUAL 7.1

GOVERNMENT AND TAXES

Part A. The Economic Functions of Government

1. Maintaining the Legal and Social Framework
2. Providing Public Goods and Services
3. Maintaining Competition
4. Redistributing Income
5. Correcting for Externalities
6. Stabilizing the Economy

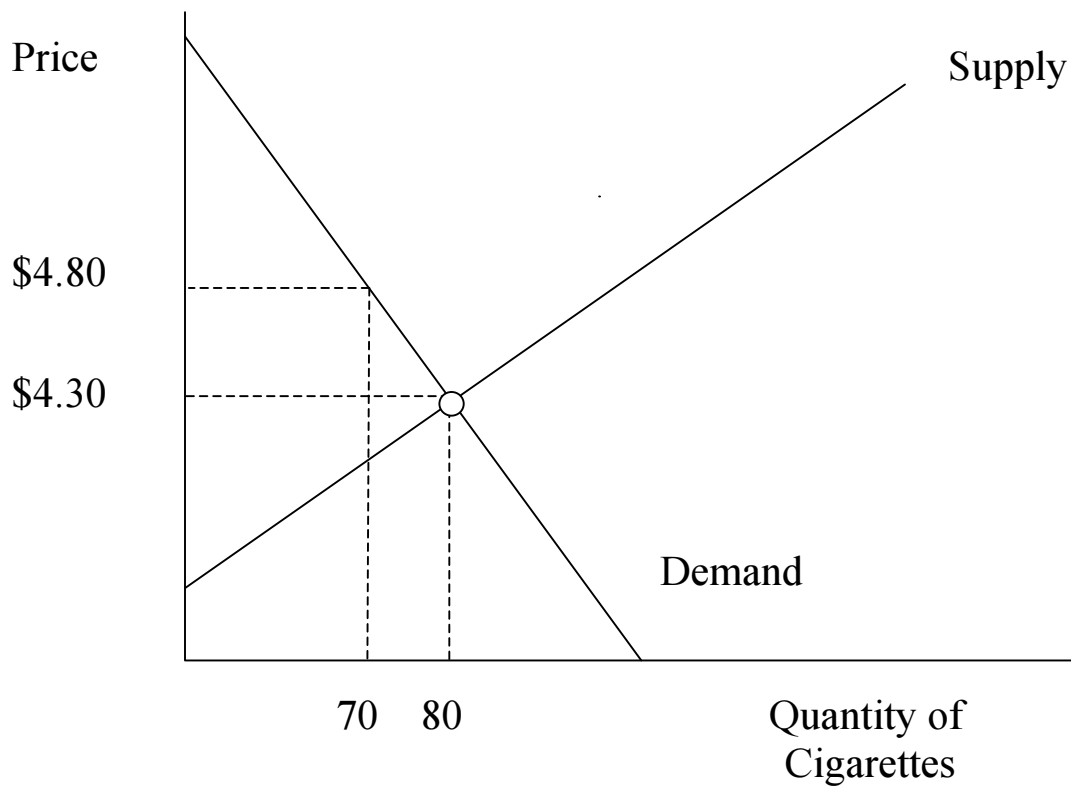
Part B. Roles of Taxation

1. Taxes provide funding for government activities
2. Taxes influence behavior

VISUAL 7.2

HOW DO TAXES CHANGE BEHAVIOR?

The Market for Cigarettes:

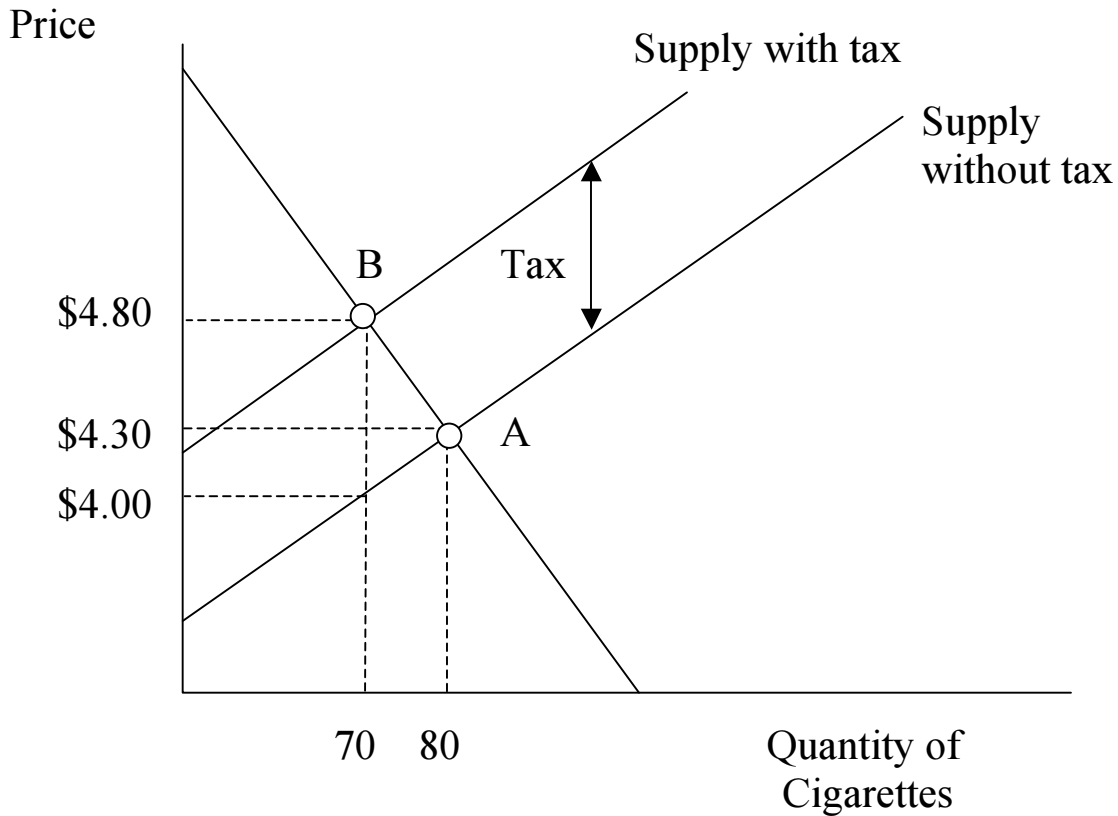


The graph shows the supply of and demand for cigarettes. The equilibrium price of cigarettes is \$4.30. The equilibrium quantity exchanged is 80.

VISUAL 7.3

HOW DO TAXES CHANGE BEHAVIOR?

Tax on Cigarettes:



The graph shows the effects of an \$.80 tax on each pack of cigarettes. The supply curve shifts by the amount of the tax (a decrease in supply). Equilibrium in the market moves from point A to point B.

VISUAL 7.4
SUMMARY SHEET

Tax Policy	Intended Behavior Change?	Behavior Change a Good Thing?	Should We Implement the Proposal?
Increase Excise Tax on Gasoline			
Estate Tax Increase			
Increase Federal Income Tax			
Decrease Capital Gains Tax			
Increase Deductions			
Increase Gas-Guzzler Tax			
Increase Excise Tax on Fishing Rods			
Increase Excise Tax on Wine			
Increase Property Taxes			
Increase Tariff on Tennis Rackets			