3. Assume that gasoline is sold in a competitive market in which demand is relatively inelastic and supply is relatively elastic.

(b) Suppose the government imposes a $2 per unit tax on the producers of gasoline. On your graph from part (a), show each of the following after the tax is imposed.

(i) The price paid by buyers, labeled P_B

(ii) The after-tax price received by sellers, labeled P_S

(iii) The quantity, labeled Q_T

(c) Using the labeling on your graph, explain how to calculate the total tax revenue collected by the government.

(d) Will the tax burden fall entirely on buyers, entirely on sellers, more on buyers and less on sellers, more on sellers and less on buyers, or equally on buyers and sellers? Explain.

STOP

END OF EXAM