**Out of Class Excise Tax Problem**

Assume a per unit excise tax is levied on gasoline of $.85 per gallon.  The equilibrium price before the tax is levied is $.95 per gallon and the quantity exchanged is 1500 gallons per hour.  The consumer will pay $1.70 after the tax is levied and the quantity exchanged will drop to 1300 gallons per hour.

Draw this situation on a supply and demand graph.  Put all appropriate numbers on your graph.

1. What is the total tax revenue the government will receive?

2. How much of this total will consumers pay?

3. How much of this total will producers pay?

4. Can you determine the area on your graph where the total tax revenue is represented?  Shade it in.

5. Can you determine the area on your graph of the deadweight loss triangle?  Label it ABC.

6. How would your analysis change if the demand for gas is perfectly inelastic?  Draw this and answer the above questions again.