

Answer on Question #45907, Economics, Microeconomics

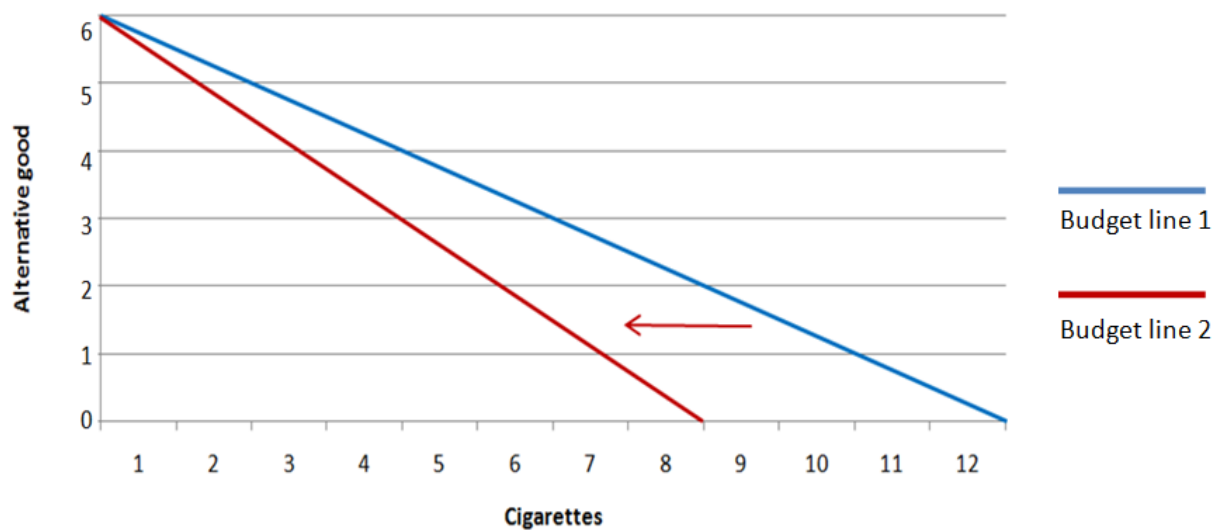
Suppose that government has imposed 50% excise tax on cigarette. If the per unit price is 1 birr and the income of the consumer is birr 12.

A, show how this tax policy affects the position of budget line.

B, Determine the amount of cigarette consumed before the imposition of tax and after the imposition of tax

C, explain the effect of the tax on the purchasing power of this typical consumer

A. Budget line shifts left after the imposing taxes for 50% (look at the graph). We suppose the existing an alternative good for cigarettes (e.g. 2 birr per unit). Consumer's expenses increased for 50% and they can buy less cigarettes.



B. Before the imposition of tax consumers could buy 12 units and only 8 units after the imposition of tax

C. The purchasing power of this typical consumer decreases after the tax raising. Because with the same income consumers can buy less goods as their price has been raised.