

TOWARD SIMPLICITY IN THE TEACHING OF COMMODITY TAX SHIFTING

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COMMON teaching practice and test explanation, especially at the introductory course level, is to graphically show a commodity tax as only partially shifted forward to buyers in the form of higher price, with the non-shifted portion of the tax borne by the sellers.¹ The basic error in this presentation is omission of long-run adjustments that cause selling price to eventually increase by essentially the absolute amount of the tax. While some deviation from the correct conclusion may be excused as a necessary expediency at the elementary level, many students are never exposed to advanced economic courses and, therefore, may for ever believe this to be the end result of tax shifting. What seems needed is a *simplified* and integrated method whereby students in the principles course can be instructed *correctly* in tax shifting analysis.

The teaching suggestions in this article use familiar partial equilibrium analysis from the first year principles course: (a) begin with an industry in long-run equilibrium before tax; (b) introduce the tax as a variable cost increase; (c) end with a long-run equilibrium after tax; (d) conclude that a commodity tax (on one purely competitive industry, with long-run constant costs) is fully shifted forward in higher product price, with only incidental burden (effects) on others than the buyers of the taxed commodity. Additional subjects discussed are whether demand and supply elasticity influences tax burden distribution; whether a commodity tax should be treated as a demand reduction or a cost increase; whether pricing formulas taught in business economic courses can be integrated with simplified economic analysis of shifting; and whether the suggested shifting analysis for a partial tax (on one industry) can be adapted for *simplified* analysis of a general tax (on all industries).

¹ John F. Walker, "Do Economists Ever Agree? The Case of the Teaching of Excise Tax: Shifting and Incidence", *National Tax Journal*, vol. 27 (June 1974), pp. 351-55. Textbook examples are William P. Albrecht, Jr., *Economics*, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1974), pp. 430-31; Robert L. Heilbroner and Lester C. Thurow, *The Economic Problem*, 4th ed. (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1975), pp. 263-64; Richard G. Lipsey and Peter O Steiner, *Economics*, 4th ed. (New York: Harper and Row, 1975), pp. 480-82.