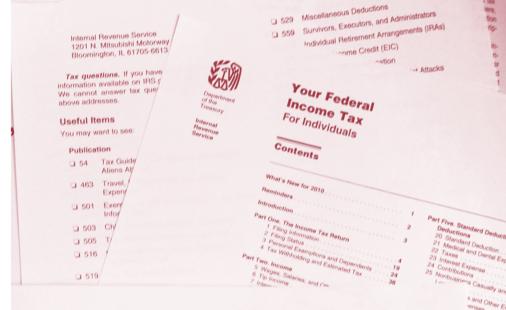
Firms and markets II

MPA 612: Public Management Economics February 26, 2018

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Your Rights as a Taxpayer

This section explains some of your most important rights as a taxpayer, including the examination, appeal, collection, and refund processes.

eclaration of Taxpayer ights

Protection of your rights. IRS employees will explain and protect your rights as a taxpayer throughout your contact with us.

Privacy and confidentiality.
The IRS will not disclose to anyone the information you give us, except as authorized by law. You have the right to know why we are asking you for information, how we will use it, and what will happen if you do not provide requested information.

Professional and courteous service. If you believe that an IRS employee has not treated you in a professional, fair, and courte-ous manner, you should lett that employee's supervisor. If the supervisor's response is not satisfactory, you should write to the IRIS director for your area or the center where you filed your return.

Representation. You may either represent yourself or, with proper written authorization, have someone else represent you in your place. Your representative must be a person allowed to practice before must be a person allowed to practice before must be a person allowed to practice before some the IRS, such as an attorney, certification of the IRS, such as an attorney, certification of the IRS, such as an attorney certification of the IRS, such as an attorney as a such as a

You can have someone accomyou at an interview. You may

amount of your tax liability or certain collection actions, you have the right to ask the Appeals Office to review your case. You may also ask a court to review your case.

Relief from certain penalties and interest. The IRS will waive perialties when allowed by law if you can show you acted reasonably and in good faith or relied on the incorrect advice of an IRS employee. We will waive interest that is the result of certain errors or delays caused by an IRS employee.

Examinations (Audits)

We accept most taxpayers' returns as filed. If we inquire about your return or select it for examination, it does not suggest that you are dishonest. The inquiry or examination may or may not result in more tax. We may close your case without change or you may receive a refund.

turn for examination usually begins on on of two ways. First, we use computer programs to identify returns that may have incorrect amounts. These programs may be based on information returns, such as Forms 1099 and W-2, on studies of past examinations, or on certain issues identified by compliance projects. Second, we use information from outside sources that indicates that a return may have incorrect amounts. These sources may include newspapers, public records, and individuals, If we determine that the information is accurate and reliable, we may use if to select a return for examination.

Publication 556, Examination of les.
heerne accominates You may selected any less of any less of any less of procedures that we follow in examinations. The following sec-

our examiner proposes any changes to your return, he or she will explain the reasons for the changes. If you do not agree with these changes, you can meet with the exemptor's superpose.

Repeat examinations. If we examined your return for the same items in either of the 2 previous years and proposed no change to your tax liability, please contact us as soon as poesible so we can see if we should discontinue the examination.

Appeals

If you do not agree with the examiner's proposed changes, you can appeal them to the Appeals Office of IRS. Most differences can be settled without expensive and time-consuming court trials. You appeal rights are explained in detail in both Publication 5, Your Appeal Tights and How To Prepare a Protest If You Don't Agree, and Publication 556, Examination of Returns, Appeal Rights, and Claims for Retund.

If you do not wish to use the Appeals Office or disagree with its findings, you may be able to take your case to the U.S. Tax Court, U.S. Court of Federal Claims, or the U.S. District Court where you live, if you take your case to court, the IRB will have the burden of proving certain facts if you kept adequate records to show your tax liability, cooperated with the IRB, and meet cortain other conditions. If the court agrees with you on most issues in your case and finds that our grastion was targely unjustified, you may be able to recover some of your administrative and titigation costs. You will not be eligible to recover these costs unless you tried to resolve your case administratively, including going through the appeals system, and you gave

Your collection appeal rights are explained in detail in Publication 1660, Collection Appeal Rights.

Innocent spouse relief. Generally, both you and your spouse are each responsible for paying the full amount of any tax, interest, and penalties due on your joint return. However, if you qualify for innocent spouse relief, you may be relieved of all or part of the joint sability. To request relief, you must file Form 8857. Request for Innocent spouse Relief, no later than 2 years after the date on which the IRS first attempted to collect the tax from you. For example, the 2-year period for filing your claim may start if the IRS applies your tax refund from 1 year to the taxes that you and your spouse owe for another year. For more information on innocent spouse relief, see Publication 971, innocent Spouse Relief, see Publication 971, innocent Spouse Relief, see

Potential Third Party Contacts

Generally, the IRIS will deal directly with you or your duly authorized representative. However, we sometimes talk with other personal sit we need information that you have been unable to provide, or to verify information we have received. If we do contact other persons, such as a neighbor, bank, employer, or employees, we dispensally need to tell them limited information, such as your name. The law prohibits us from disclosing any more information than is incessary to obtain or verify the information we are seeking. Our need to contact other persons may continue as long as there is activity in your case. If we do contact other persons, you have a right to repusal a list of those contacted.

Refund

file a claim for refund if

which

these deci.

Current events

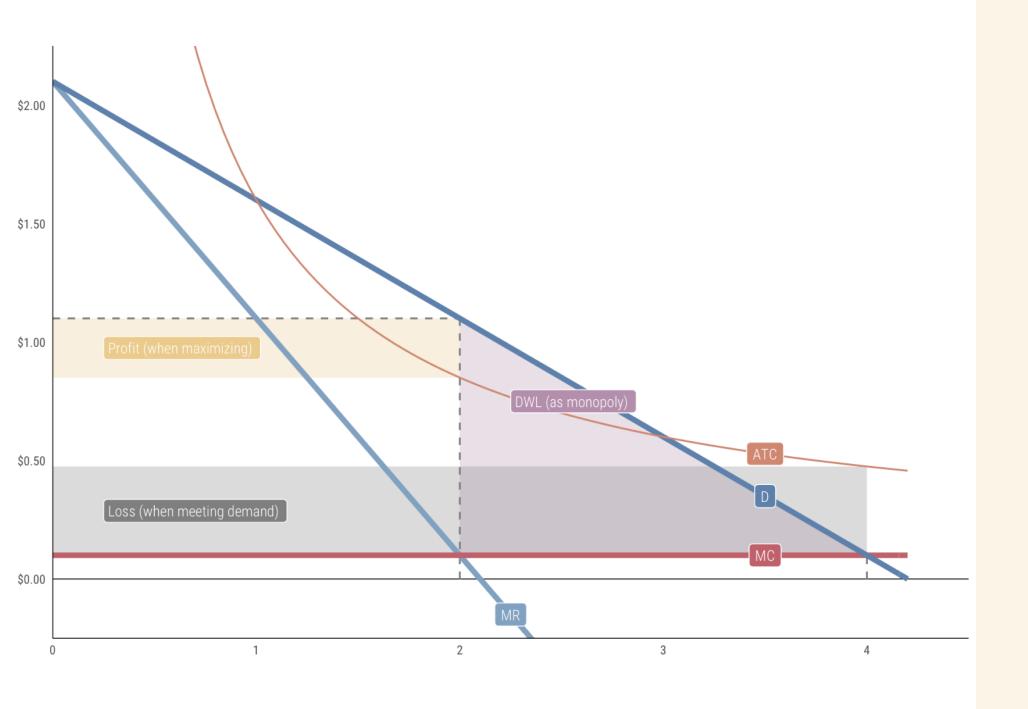
Plan for today

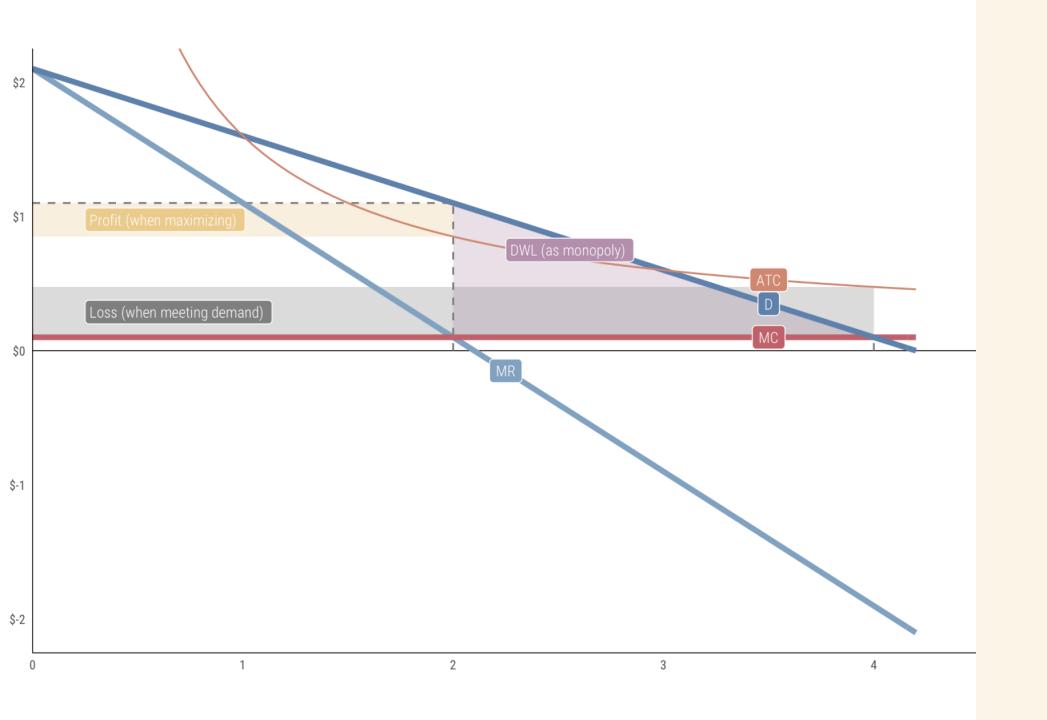
Changes in supply and demand

Consumer and producer surplus

Taxes and distributional issues

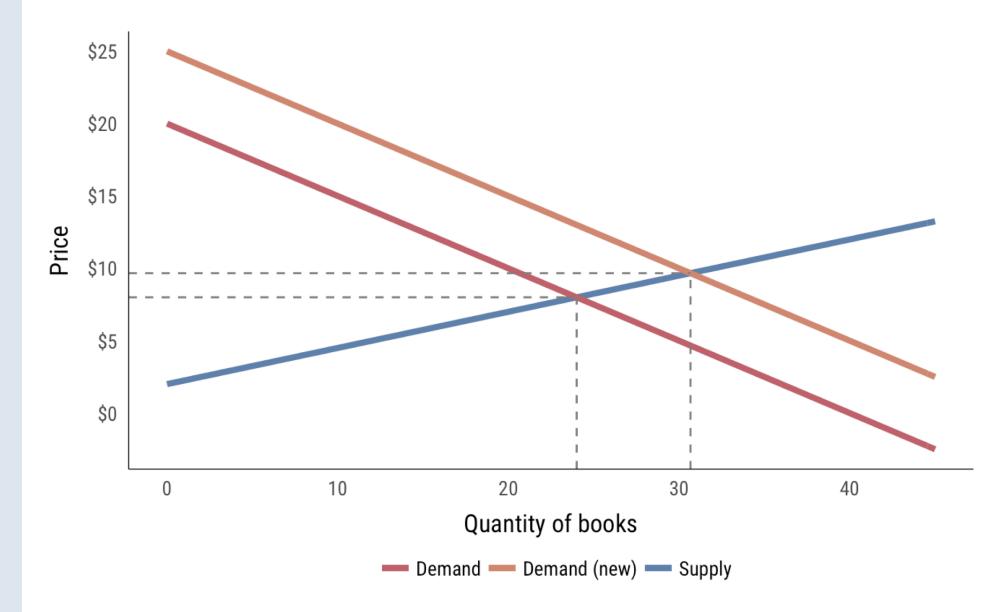
Competition in a price-taking world





Changes in supply and demand

Change in demand



Change in demand

Demand higher at every possible point

Structural change

Price increases; quantity increases (or decreases/decreases)

Supply remains the same

People start preferring hamburgers over pizza

Change in quantity demanded

Prices and quantity change...

...but not because of structural issues

Movement along demand curve

Supply remains the same

Price of pizza changes

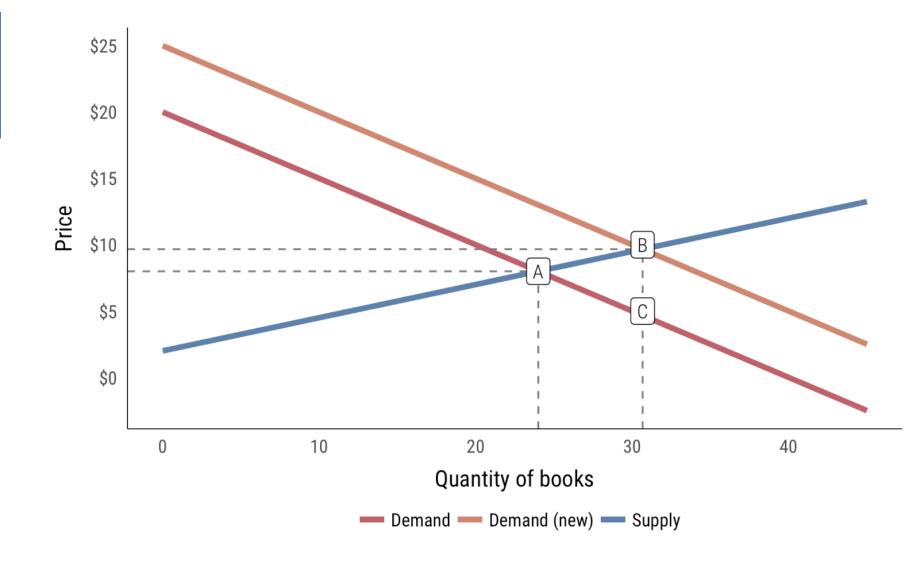
Two ways to get from 24 to 17ish

A → C

Change in quantity demanded

Only price changes

A → B
Change in demand
New demand curve



Factors that cause demand to shift

Change in price of complementary goods

Change in income

Change in price of substitute goods

Change in preferences

Change in population of buyers

Expectation of higher prices

C

Orange market Dr. Oz promotes new fad diet where everyone eats 10 oranges a day

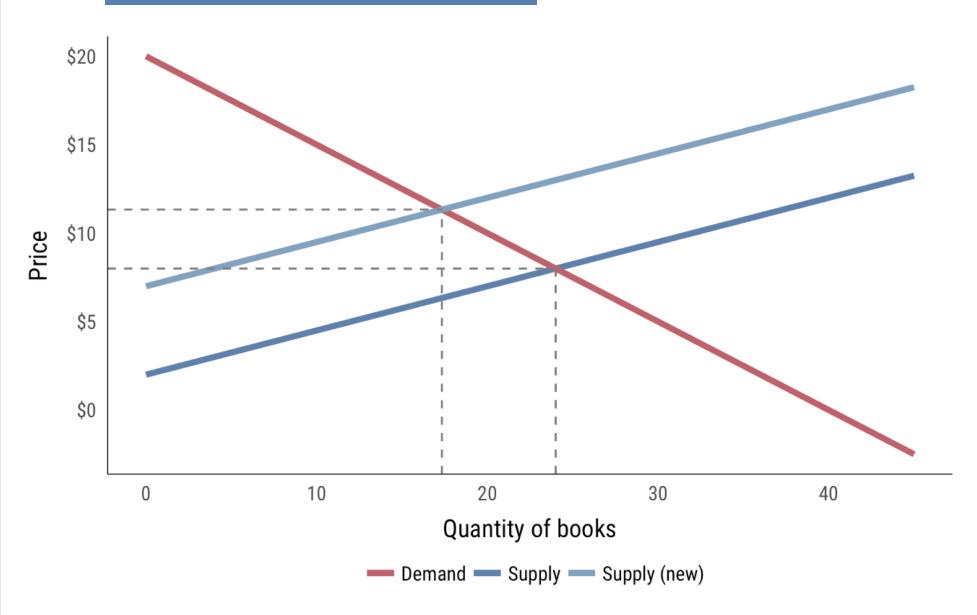
Car market Consumer income rises

Car market Gas prices double

Shoe market More manufacturers make shoes

Lettuce market Price drops by 10 cents

Change in supply



C

Change in supply

Supply higher at every possible point

Structural change

Price increases; quantity increases (or decreases/decreases)

Demand remains the same

Cost of production changes because of technology or input costs

Change in quantity supplied

Prices and quantity change...

...but not because of structural issues

Movement along supply curve

Demand remains the same

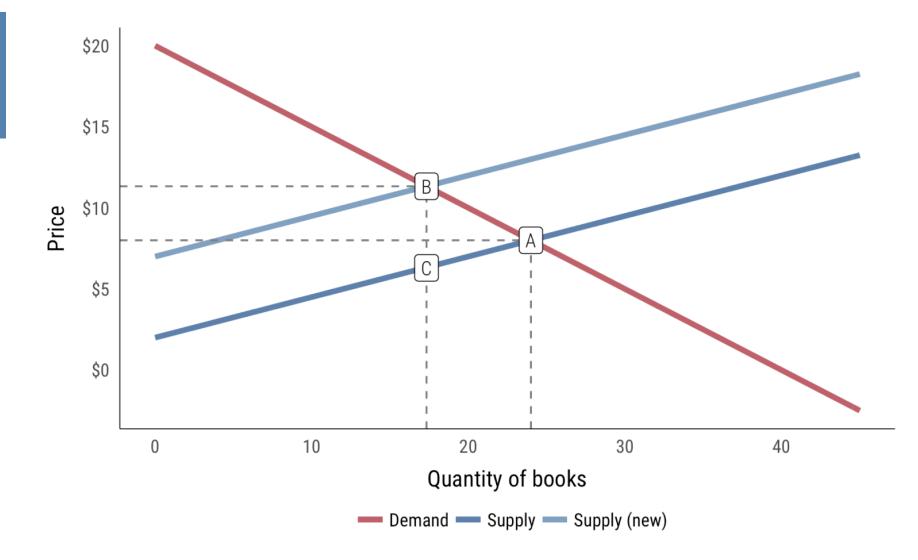
Price of product changes

Two ways to get from 24 to 17ish

A → C

Change in quantity supplied
Only price changes

 $A \rightarrow B$ Change in supply New supply curve



Factors that cause supply to shift

Change in cost of inputs

Change in cost of production

Change in weather

Change in number of suppliers

Expectation of lower prices

(

Car market

New engine design reduces production costs

Orange market

Freeze in Florida kills 50% of the crop

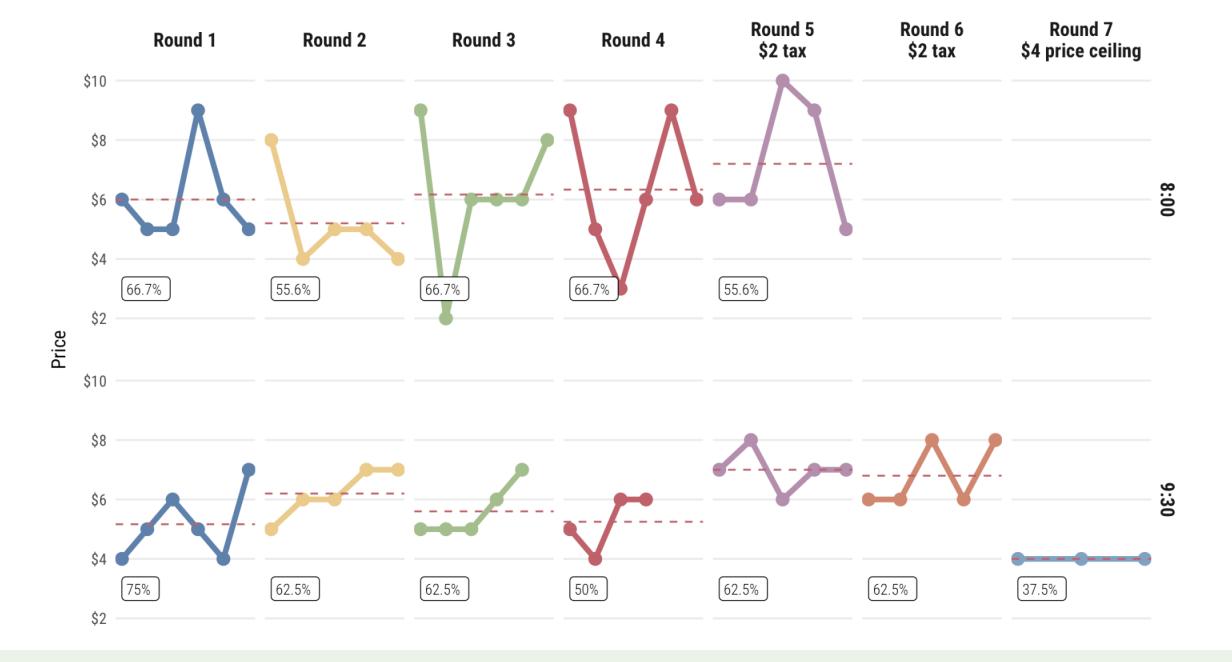
Shoe market Price of shoes increases

Shoe market Price of leather increases



Consumer and producer surplus

Coloring in all the lines



Consumer surplus

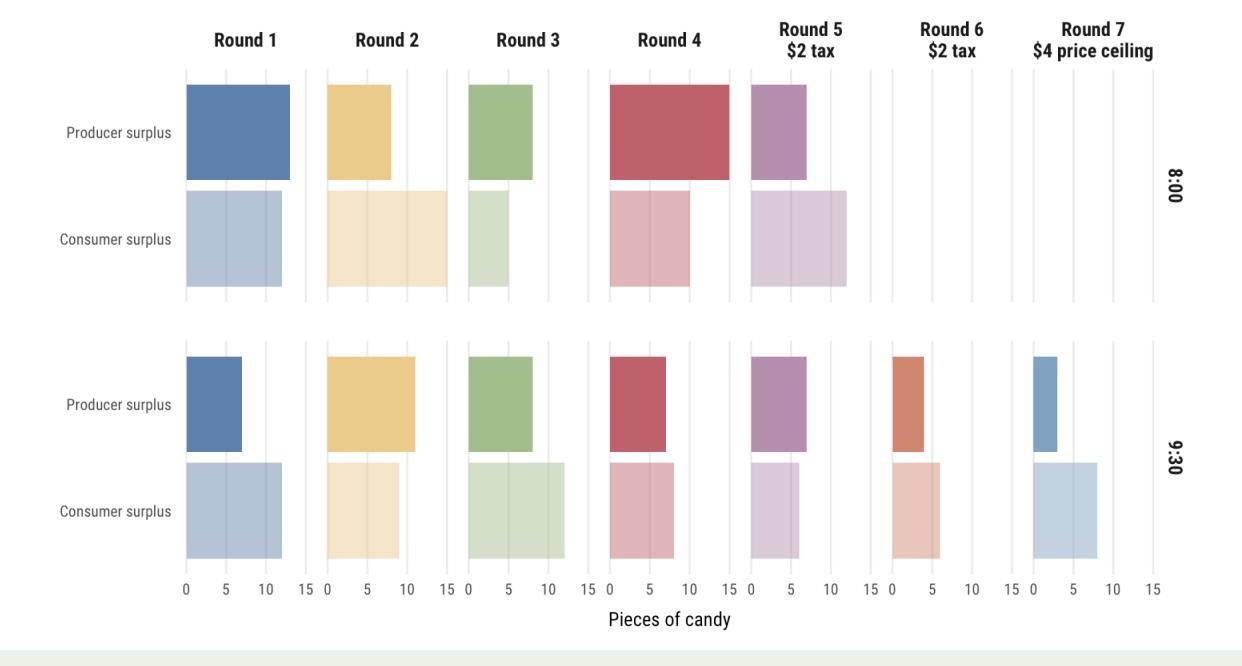
Difference between WTP and price

How good of a deal consumer gets

Producer surplus

Difference between price and WTA

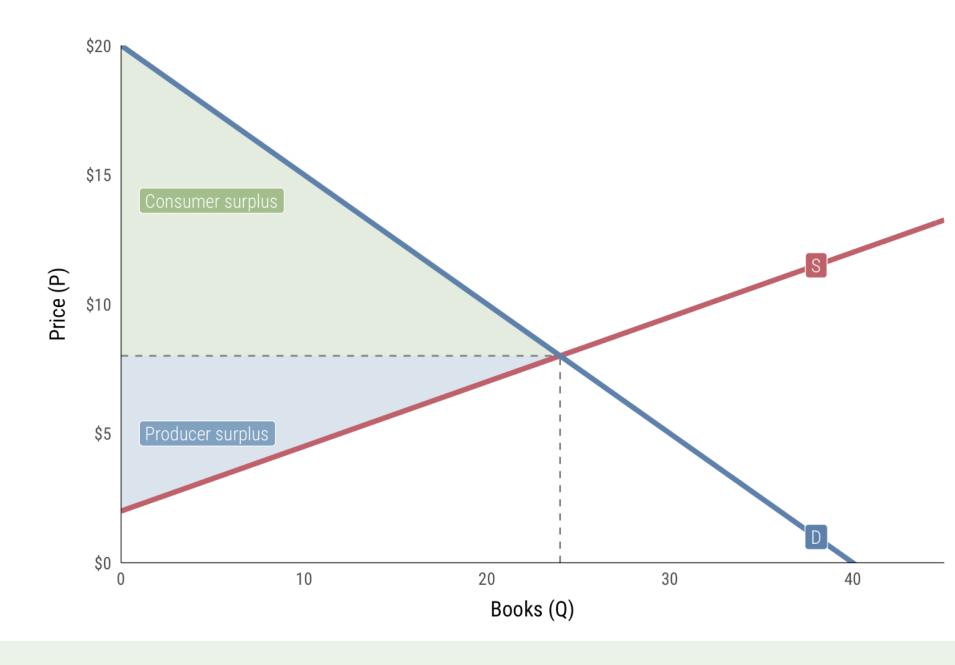
How good of a deal producer gets



S: P = 2 + 0.25QD: P = 20 - 0.5Q

S: P = 2 + 0.25Q

D: P = 20 - 0.5Q



Taxes and distributional issues

Why do governments tax?

Raise revenue for services

Redistribute resources

Encourage or discourage consumption

What happens when governments tax?

Revenue raised for public goods

Resources redistributed

Markets distorted; loss of efficiency

Types of taxes

Excise

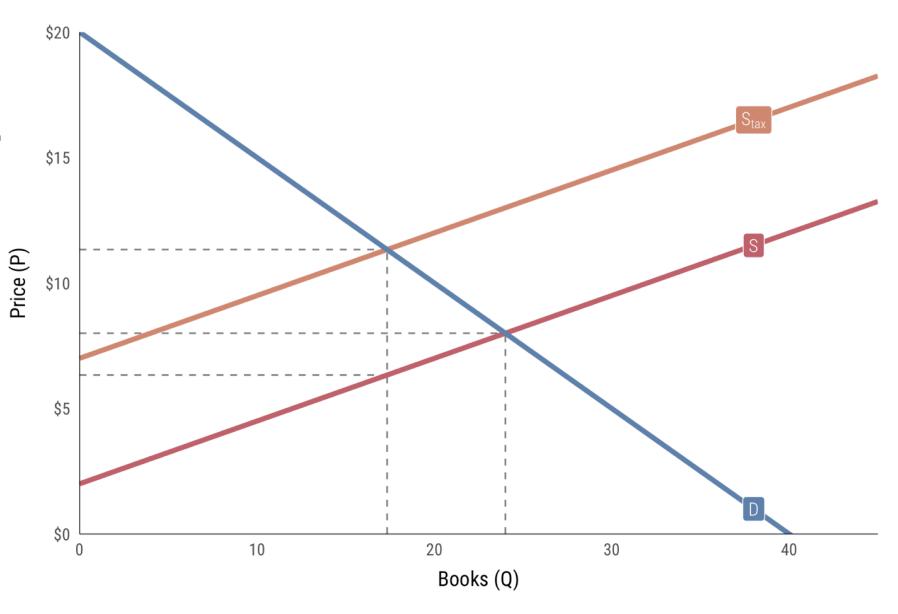
Income, payroll, sales, profit, property

$$S: P = 2 + 0.25Q$$
 $D: P = 20 - 0.5Q$
 $S_{\text{tax}}: P = 2 + 0.25Q + 5$

S: P = 2 + .025Q

D: P = 20 - 0.5Q

 $S_{\text{tax}}: P = 2 + 0.25Q + 5$



S: P = 2 + 0.25Q\$20 D: P = 20 - 0.5Q $S_{\text{tax}}: P = 2 + 0.25Q + 5$ \$15 Price (P) \$10 DWL \$5 Producer surplus \$0 10 20 30 40 Books (Q)

$$S_1: P = 2 + 0.25Q$$

 $S_3: P = 2 + 0.05Q$

$$D_1: P = 10 - 0.05Q$$

 $D_3: P = 20 - 0.5Q$

$$S_{1 \text{ tax}}: P = 2 + 0.25Q + 5$$

 $S_{3 \text{ tax}}: P = 2 + 0.05Q + 5$

$$S_2: P = 2 + 0.25Q$$

 $S_4: P = 2 + 1.5Q$

$$D_2: P = 20 - 2Q$$

 $D_4: P = 20 - 0.5Q$

$$S_{2 \text{ tax}}: P = 2 + 0.25Q + 5$$

 $S_{4 \text{ tax}}: P = 2 + 1.5Q + 5$

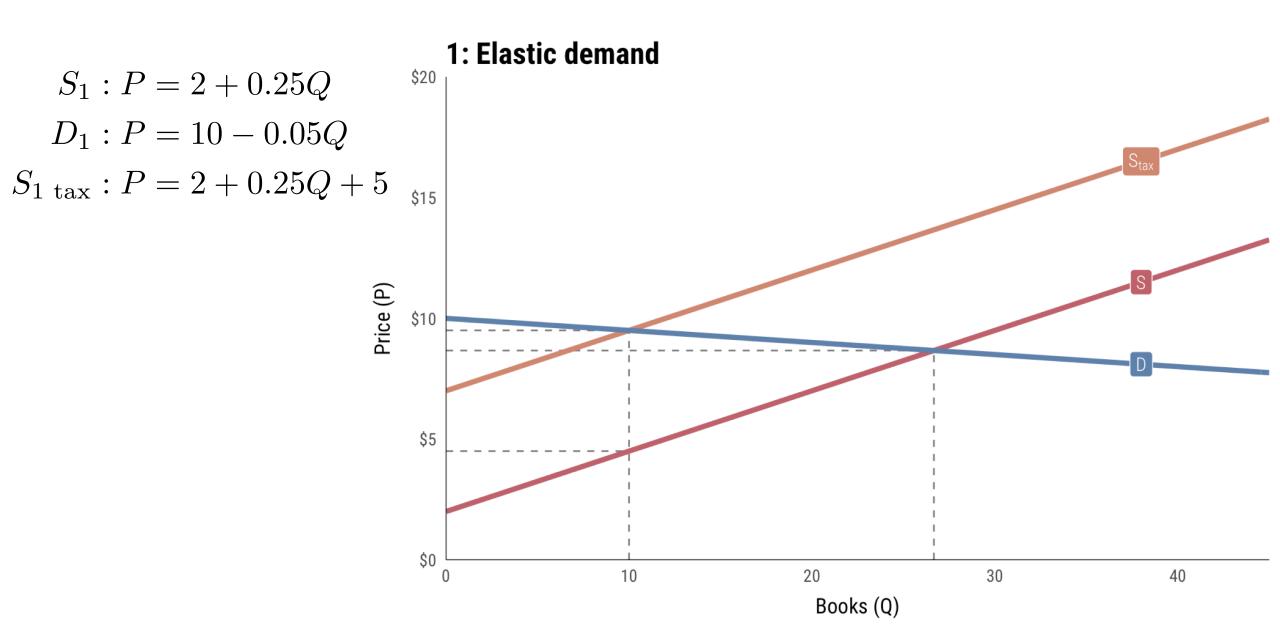
P and Q at competitive equilibrium

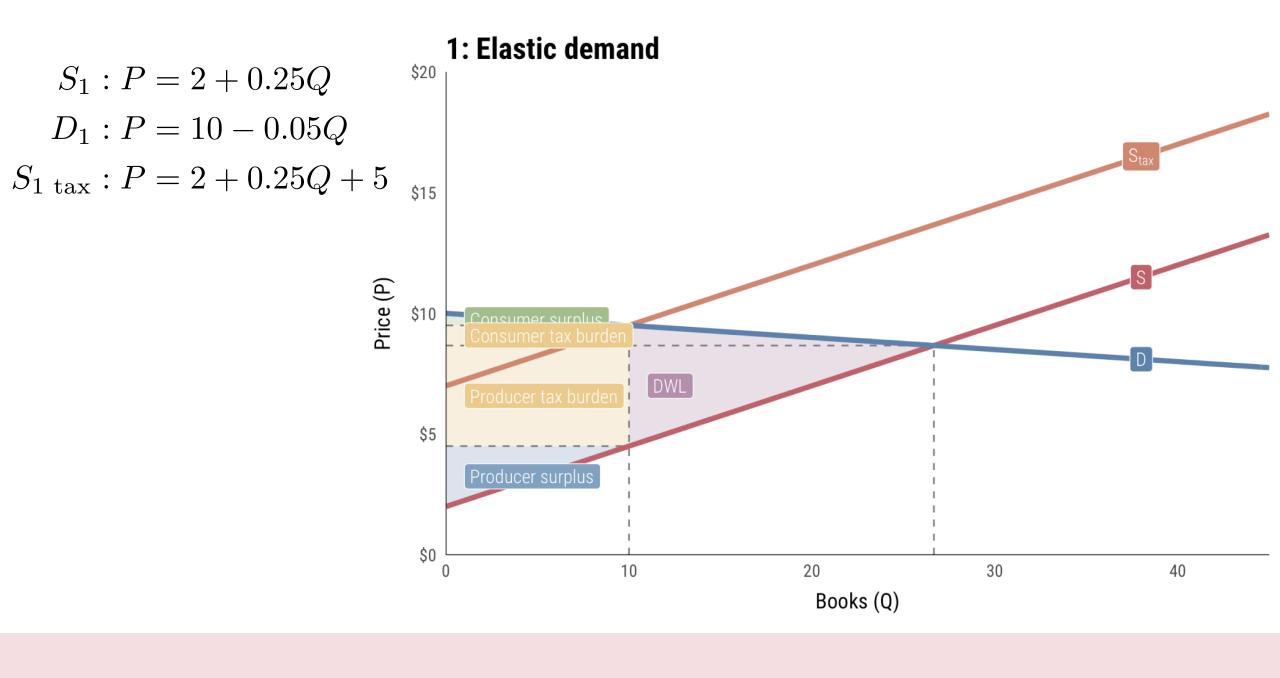
Size of producer and consumer surpluses

P and Q at tax equilibrium

Size of deadweight loss

Producer and consumer incidence



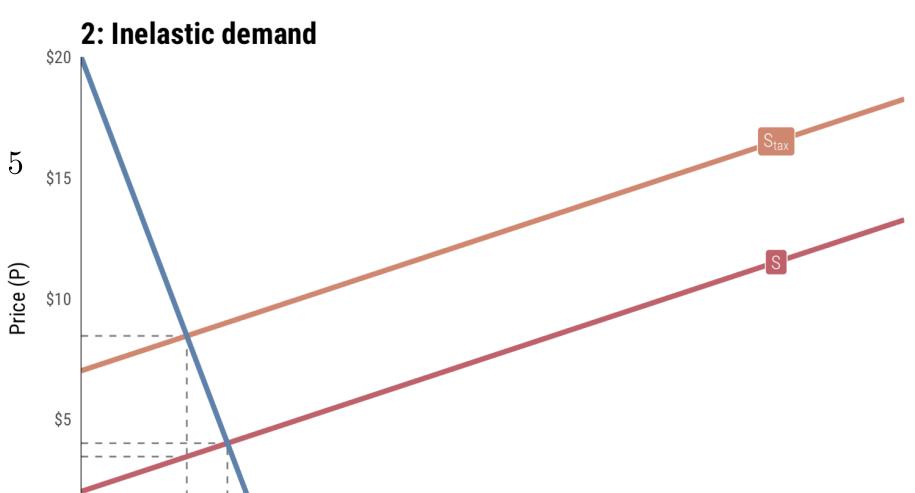


 $S_2: P = 2 + 0.25Q$

 $D_2: P = 20 - 2Q$

 $S_{2 \text{ tax}}: P = 2 + 0.25Q + 5$

\$0



20

Books (Q)

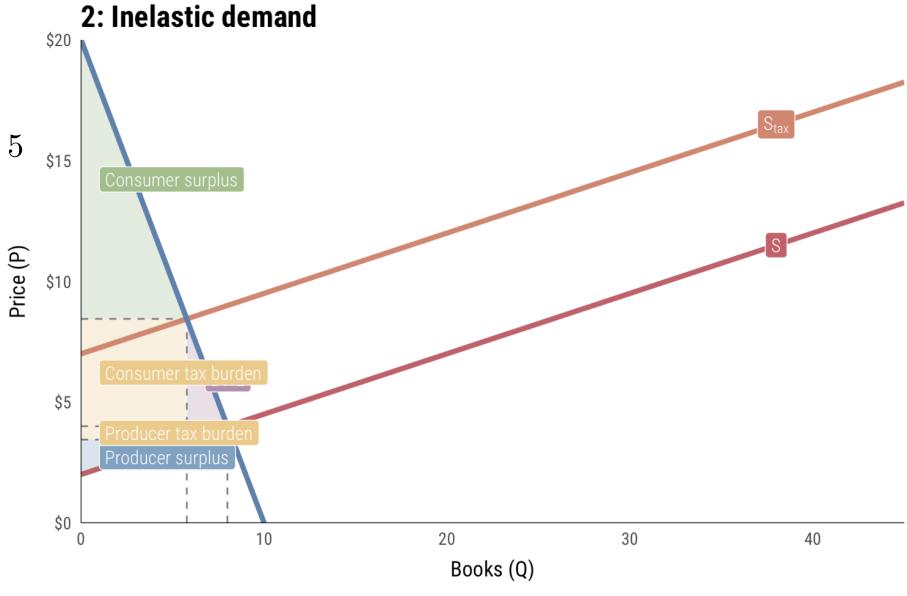
30

40

 $S_2: P = 2 + 0.25Q$

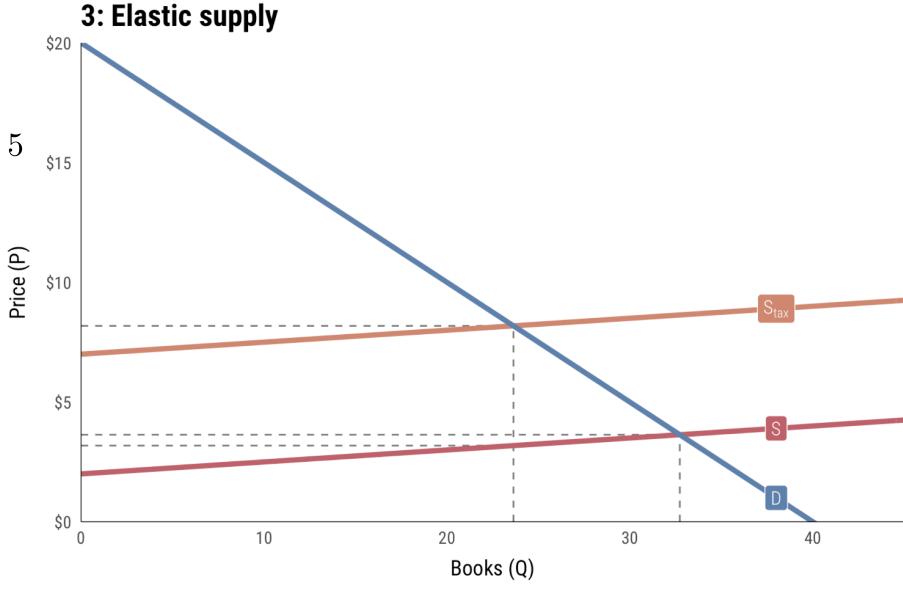
 $D_2: P = 20 - 2Q$

 $S_{2 \text{ tax}}: P = 2 + 0.25Q + 5$



 $S_3: P = 2 + 0.05Q$ $D_3: P = 20 - 0.5Q$

 $S_{3 \text{ tax}}: P = 2 + 0.05Q + 5$



3: Elastic supply $S_3: P = 2 + 0.05Q$ \$20 $D_3: P = 20 - 0.5Q$ $S_{3 \text{ tax}}: P = 2 + 0.05Q + 5$ Consumer surplus Price (P) \$10 DWL \$5 Producer tax burde Producer surplus \$0 10 20 30 40 Books (Q)

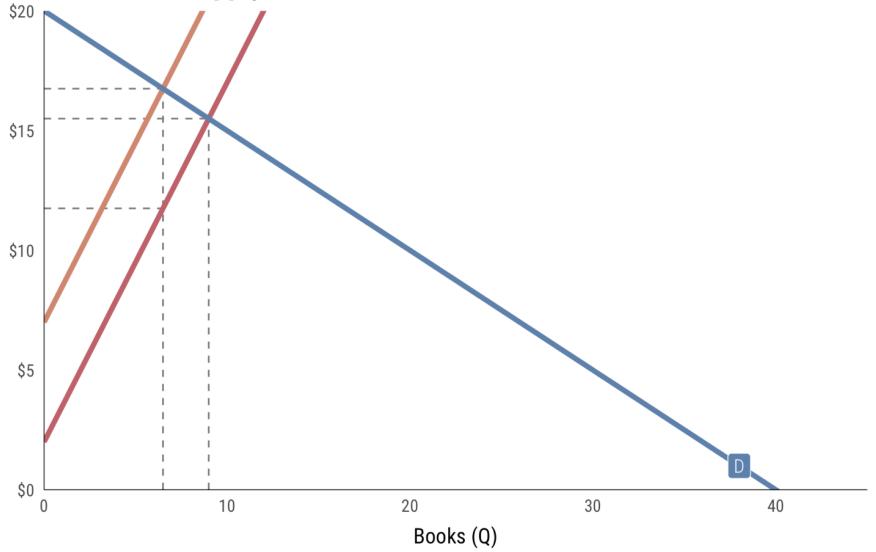
 $S_4: P = 2 + 1.5Q$

 $D_4: P = 20 - 0.5Q$

 $S_{4 \text{ tax}}: P = 2 + 1.5Q + 5$

Price (P)

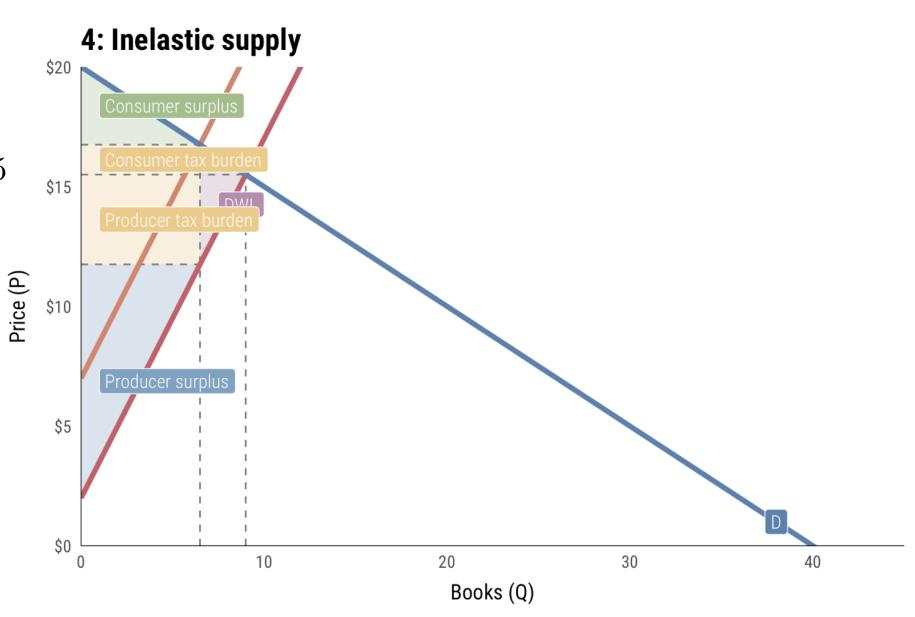




 $S_4: P = 2 + 1.5Q$

 $D_4: P = 20 - 0.5Q$

 $S_{4 \text{ tax}}: P = 2 + 1.5Q + 5$



Tax incidence and ε

Incidence depends on elasticity of supply or demand

Tax burden falls on those least able to escape it

Incidence within consumers

Progressive taxes

Rich pay more Income taxes (but loopholes)

Regressive taxes

Poor pay more

Sales taxes, payroll taxes

Tax fairness

Benefits principle

Those who benefit from public spending should bear the burden of the tax

Ability-to-pay principle

Those with a greater ability to pay a tax should pay more tax

Competition in a price-taking world

Messing with capitalism and competition to be more capitalistic and competitive

Continued Existence Of Edible Arrangements Disproves Central Tenets Of Capitalism

3/31/11 8:00am • SEE MORE: OUR ANNUAL YEAR 2011 >

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Economists say the franchise "goes against all we previously held to be true about the concept of supply and demand."





npr

GOVERNMENT

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February 23, 2013 · 11:00 AM ET



Price-making firm

Sets P and Q to maximize π

MC < P

Deadweight loss

Advertising and marketing

Lobbying to influence politics

Research, innovation, prevention of copying

Price-taking firm

Sets Q to maximize π , given P

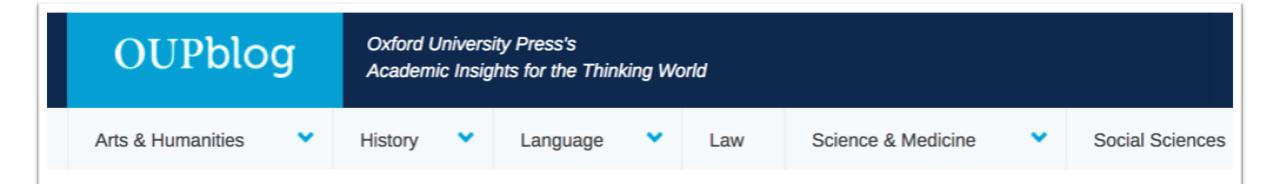
MC = P

Pareto efficient

Little advertising (public good)

Little lobbying (public good)

Little incentive for innovation because of risk of copying



Is competition always good?

MARCH 25TH 2013