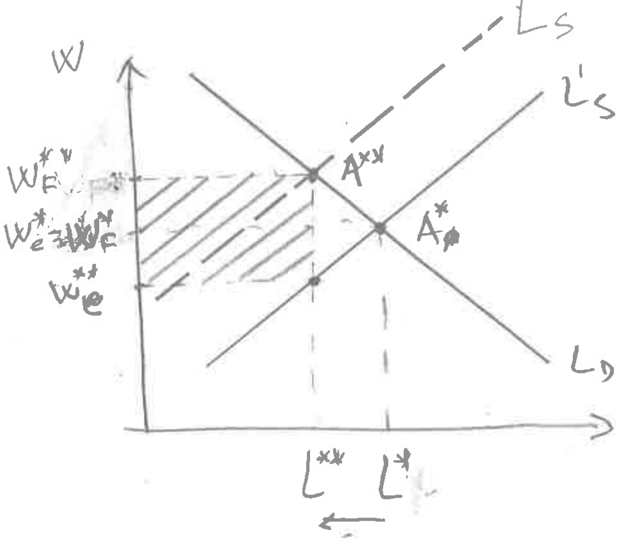
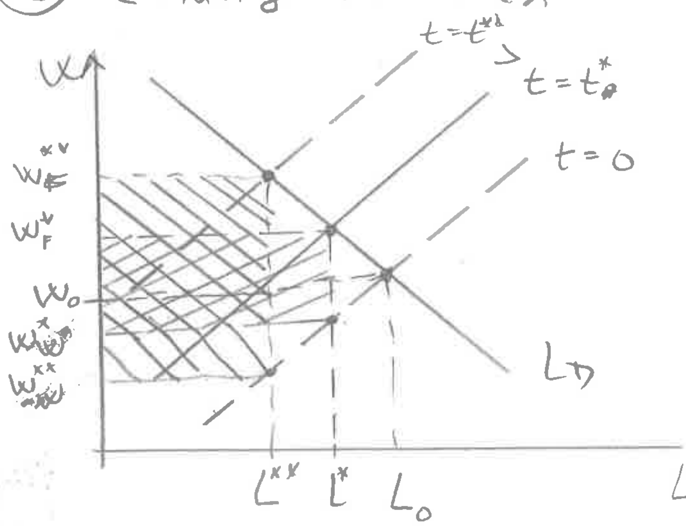
• $\boxed{\text{CASE}}$ OF TAXATION OF LABOR

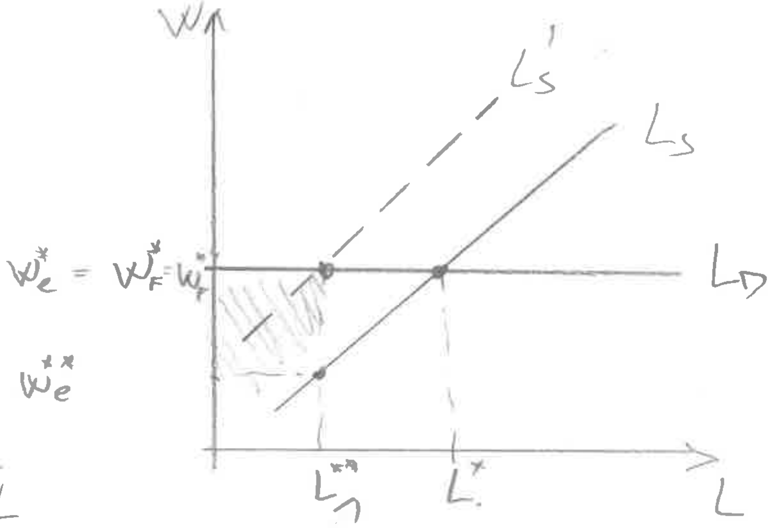
① New tax



$T = L^{**} w_F^{**} \, t)$

② change in tax





consider $\Delta t \nearrow \rightarrow \Delta T$

$\rightarrow$ "optimal" t ? max T ?

$T = t w_F L \qquad w_e = (1-t) w_F \qquad \ln w_e = \ln(1-t) + \ln w_F$

$$\frac{\partial \ln w_e}{\partial t} = -\frac{1}{1-t}$$

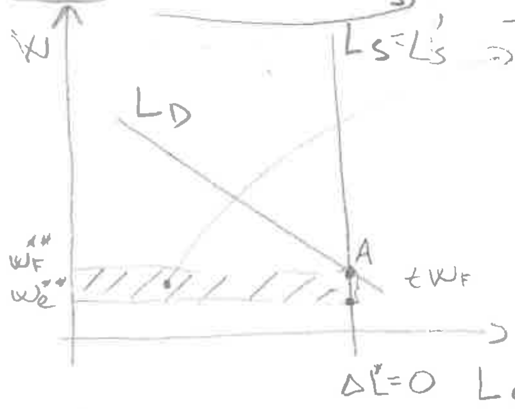
$$\frac{\partial T}{\partial t} = ? : \frac{\partial \ln T}{\partial t} = \frac{\partial \ln t}{\partial t} + \frac{\partial \ln w_F}{\partial t} + \underbrace{\frac{\partial L}{\partial w_e}}_{\text{subst. eff}} \frac{\partial \ln w_e}{\partial t}$$

$$= \underbrace{\frac{1}{t} + 0 + \underbrace{\varepsilon_s}_{\geq 0} \cdot \left(-\frac{1}{1-t}\right)}$$

for t_{OPT}: $\frac{\partial \ln T}{\partial t} = 0 \rightarrow \frac{1}{t} - \varepsilon_s \frac{1}{1-t} = 0$

$1 - t = t \varepsilon_s \rightarrow \boxed{t_{OPT} = \frac{1}{1+\varepsilon_s}} = \frac{1}{1+.3} = 0.7$

CASE Inelastic L_S

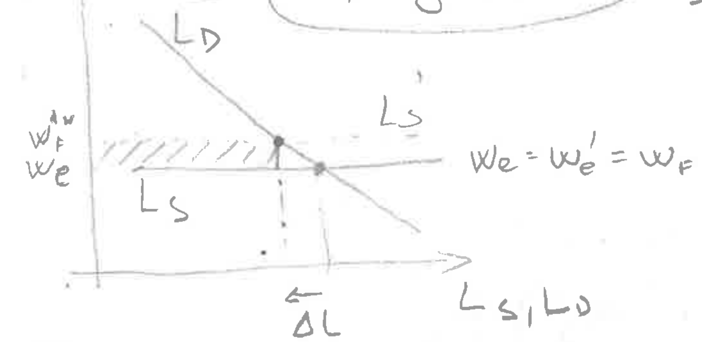


$\Rightarrow T = t w_F L^* = (w_F^{**} - w_e^{**}) L^*$ → wage received (net) ; w_F^{**} → wage payed (gross)

$w_e^{**} = w_F^{**}(1-t)$

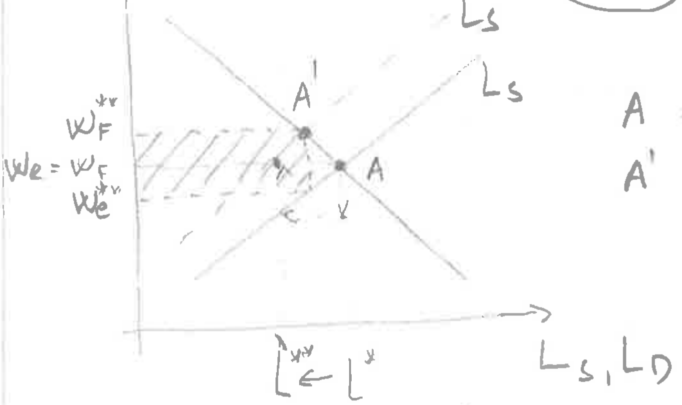
- Tax burden on employees

CASE Perfectly elastic L_S



- Tax burden on firms
- Some (ΔL) people will stop working

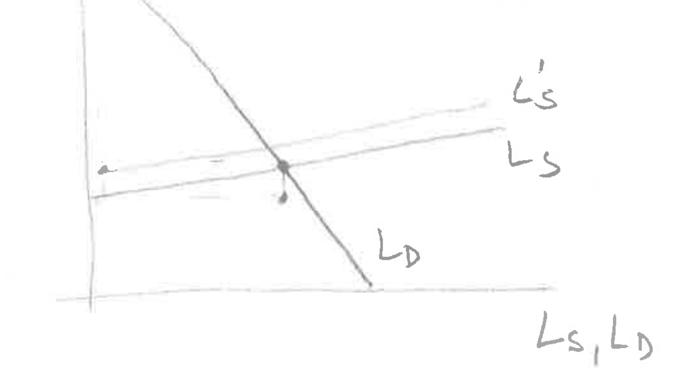
CASE General one



A ... initial equilibrium

A' ... new equilibrium

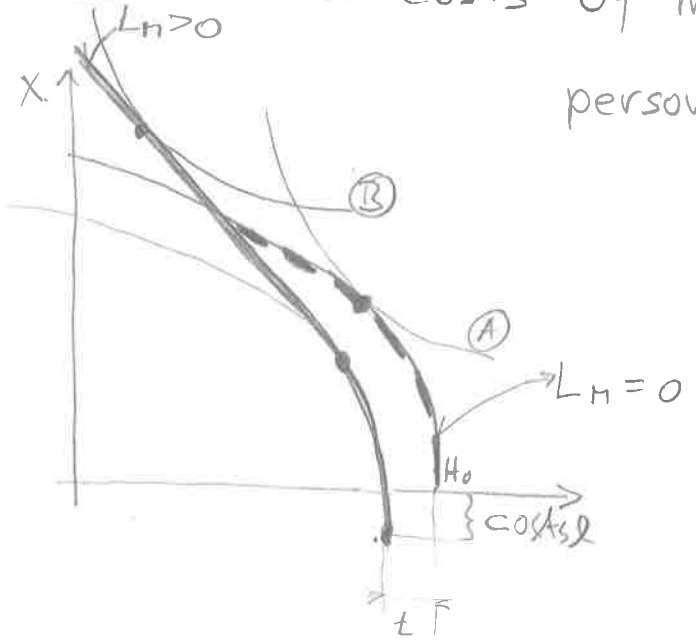
CASE Very elastic L_S



CASE Fixed costs of market work

t ~ travel time

c ~ gas, ticket cost



person (A) will not work; $L_M = 0$

$$l + L_H = H_0$$

(B) will work

$$l' + L_H' + L_M' = H_0 - t$$