# 1.15 Consumer and Producer Surplus and the Incidence of Indirect Taxes: 30-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 30 minutes

Name: _____ Date: ____ / ____ / _____

**Answer all questions. Full sentences are required for questions worth 4 marks or more. Allowed time: 30 minutes. No calculator is needed; round whole-number prices and quantities are used.**

**1** Evaluate the view that indirect taxes always fall mostly on consumers. In your answer consider the role of elasticities, the type of tax, market structure and time period, and provide a supported judgement.

**(Total for Question 1 is 15 marks)**


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# Mark scheme · 1.15 Consumer and Producer Surplus and the Incidence of Indirect Taxes: 30-minute Pack

## Question 1

| | |
|---|---|
| **Level 1** Basic assertions about tax incidence with little application or development. Limited or no consideration of alternative factors. Conclusion, if any, is weak. | **1-3** |
| **Level 2** Clear explanation that taxes can fall on consumers depending on relative elasticities, with some examples or brief discussion of tax types. Limited evaluation of other factors or time dimension. | **4-6** |
| **Level 3** Good analysis using elasticities and types of tax, including diagrams or examples. Discusses market structure and time lags, and presents balanced argument with some evaluation of caveats. | **7-9** |
| **Level 4** Well developed answer covering elasticity effects, specific versus ad valorem distinction, market power, and short-run versus long-run differences. Includes strong use of examples and critical discussion of empirical and measurement issues. | **10-12** |
| **Level 5** Comprehensive evaluation that integrates theory and real-world considerations, weighs multiple arguments, addresses limitations and uncertainties, and reaches a clear, well-supported judgement on whether indirect taxes always fall mostly on consumers. | **13-15** |

**Indicative content:**

- Theory: elasticity rule, more inelastic side bears larger share of tax; diagrams showing cases where consumers bear more and where producers bear more
- Type of tax: specific versus ad valorem can affect incidence; ad valorem incidence can vary with price level
- Market structure: in imperfect competition producers with market power may be able to pass on more of the tax, or may absorb more depending on demand sensitivity
- Time dimension: short-run elasticities often lower than long-run elasticities so consumers may bear more initially but less later
- Other factors: legal incidence differs from economic incidence; contracts, regulation, and vertical integration affect shifting; measurement problems in estimating elasticities
- Empirical evidence: mixed results across markets, some goods with inelastic demand (tobacco) see most tax borne by consumers, others with elastic demand see producers absorb more
- Judgement: indirect taxes do not always fall mostly on consumers; the distribution depends on elasticities, tax design, and market conditions. A qualified conclusion should state when the claim tends to hold and when it does not


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