

In early November of 1998, voters in California approved Proposition 10, a measure to increase taxes on retail sales of cigarettes by \$1.00 per pack beginning on January 1, 1999. Suppose that demand for cigarettes is inelastic. Can you determine whether buyers or sellers will bear the larger burden of the tax? Explain.

One cannot tell from the information given who will bear the larger burden of the tax. The burdens depend on the relative elasticities. If demand is relatively less elastic (more inelastic) than supply ($E_d < E_s$) then buyers will bear the larger burden. If demand is relatively more elastic (less inelastic) than supply ($E_d > E_s$) then sellers will bear the larger burden. The general rule is that the less elastic group pays the larger burden.