

Tax 101 Activity 1: What is tax and why do we need it?

Years 11-12

TASK 3 NEGATIVE EXTERNALITIES AND TAX

Worksheet

Focus: Economics

YOU WILL:

- ▶ consider the impact of externalities on the allocation of resources
- ▶ research one good with externalities and identify the social costs of its production and consumption
- ▶ identify how the government intervenes to affect the production and consumption of this good
- ▶ model the effects of government intervention using a demand-supply diagram
- ▶ explain the effects of government intervention
- ▶ present your findings to the class

YOU WILL NEED:

- ▶ *Fact sheet: What is tax and why do we need it?*
- ▶ Access to the internet

Governments intervene in the market to vary the quantity of goods and services produced due to either the social costs or benefits of their production and consumption (externalities).

COLLABORATIVELY INVESTIGATE

Your task is to work in groups to research and analyse an example of how and why the government uses taxation to influence the levels of production and consumption of goods with social costs (negative externalities).

Use the following scaffold to guide your research:

1. Explain how and why negative externalities result in the inefficient allocation of resources.
2. What is the good you are investigating? (for example, leaded fuel, cigarettes, alcohol)
3. What social costs (negative externalities) are associated with the production and consumption of this good?
4. Outline how the government intervenes to address the social costs associated with the production and consumption of this good (for example, excise tax)
5. Draw a demand-supply diagram to show how the government action (eg: taxation) affects the level of production and consumption of the good. (See Business Tax, Activity 4, Task 4 for an example of a demand-supply diagram of a subsidy)
6. Use the demand-supply diagram to explain how the government intervention helps correct market failure.
7. Explain how the government intervention results in more efficient allocation of resources.

PRESENT YOUR FINDINGS

Each group uses their findings to prepare a class presentation using ICT.