



1. Input:

New chat



MO

Who bears a tax on sales, the buyers or the sellers?



2. Output ChatGPT:

A tax on sales can be borne by either the buyers or the sellers, or both. The incidence of the tax, or who actually bears the burden of the tax, depends on the relative elasticities of supply and demand for the product being taxed.

If the demand for the product is relatively inelastic (i.e., the quantity demanded does not change much in response to changes in price), then the tax is likely to be borne more by the buyers, as they will continue to purchase the product even with the tax. In this case, the sellers may pass on the burden of the tax to the buyers by raising the price of the product.

On the other hand, if the supply of the product is relatively inelastic (i.e., the quantity supplied does not change much in response to changes in price), then the tax is likely to be borne more by the sellers, as they will have to pay the tax regardless of the price they charge. In this case, the sellers may absorb the tax by lowering their profit margins, or they may pass on some or all of the tax to the buyers by raising the price of the product.

Ultimately, the incidence of a tax on sales depends on the specific circumstances of the market in which the tax is imposed, and can vary depending on the elasticity of supply and demand.



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3. **Graphs** about tax incidence

A tax on sales is introduced. The per unit-tax is paid to the government by the seller.

Price elasticity of demand = 0	
Graph	Explanations
	<p>The tax is paid by the seller.</p> <p>The price rises from P to $P+$, whereby $P+ = P$ plus tax. The net receipt for the seller is the same as before ($P = P+$ minus tax).</p> <p>The tax is completely borne by the buyer.</p> <p>Abbreviations: P = Price Q = Quantity D = Demand S = Supply $P+$ = Price plus tax $S+$ = Supply with tax</p>

Price elasticity of demand = infinite	
Graph	Explanations
	<p>The tax is paid by the seller.</p> <p>The price for the buyer does not change. Out of the price, the seller has to pay the tax. The net receipt for the seller falls from P to $P-$ ($= P$ minus tax).</p> <p>The tax is completely borne by the seller.</p> <p>Abbreviation: $P-$ = P minus tax</p>

The tax burden is distributed between the seller and the buyer	
Graph	Explanations
	<p>The tax is again paid by the seller.</p> <p>The price for the buyer rises from P to $P+$. Out of this price, the seller has to pay the tax. His net receipt is $P-$.</p> <p>Now the tax burden is distributed as follows: The buyer bears $(P+ \text{ minus } P) \cdot Q$ (the yellow rectangle), the seller bears $(P \text{ minus } P-) \cdot Q$ (the blue rectangle).</p>