

Module 50 Efficiency and Deadweight Loss

Discussion Question: What is the last price per gallon you paid (or saw) for gasoline? In what ways has the price of gasoline changed your driving behavior?

-Consumers pay both a federal gas tax and a state gas tax.

Florida-gas tax 53.4 cents per gallon

Florida-diesel tax 54.9 cents per gallon

U.S. Federal tax on gas-18.4 cents per gallon

U.S. Federal tax on diesel-24.4 cents per gallon

Markets are usually **efficient**, typically there is no way to make anyone better off without making someone else worse off.

Three Caveats:

- 1.) Although a market is efficient, it isn't necessarily fair.
- 2.) Markets can sometimes fail.
- 3.) Even when a market maximizes total surplus, it is not necessarily best for every individual producer and consumer.

The Benefits and Costs of Taxation:

Benefits: Revenue generated from taxes

Costs: Prevents mutually beneficial transactions from happening, Leads to a deadweight loss (the value of foregone mutually beneficial trade), and administrative costs (resources used by the government to collect a tax).