Burden and Choice

A Lump Sum Tax that raises the same revenue as a per-apple tax = horizontal distance from “B” to the old budget set.

Old relative prices (budget set) through “B” gives the lump sum tax that raises the same revenue as apple tax.

Apple Tax Excess Burden = loss in utility at “B” compared to “C”. It exists because, (a) it lowers income, and (b) also discourages consumption of apples.

A→C is pure income effect—no substitution away from higher-priced (taxed) good, and thus no excess burden.