At term for the majority living far

Economics

ASSIGN BUSTER

At the United States, it is legitimate for individual states and local governments to carry out certain actions in the market: it is government intervention.

According to the article the city of Philadelphia has introduced a tax (additional payment due to a government) on the market of sugary beverages. Governments have a high tendency to put taxes on demerit goods which are goods whose consumption is considered unhealthy or socially undesirable. Sugary drinks are responsible for a large part of the obesity and diabetes in the world and constitute then a demerit good. The market of sugary beverages' equilibrium was settled at Q1P1. After the introduction of the tax by the state of Pennsylvania, the supply curve shifts to the left, from S to S+tax. The market is then in disequilibrium and in condition of excess demand. Prices will be bid up resulting in a contraction of quantity demanded and an extension of quantity supplied. This whole process results to a new market clearing price at Q2P2.

Overall, it is a higher price and a lower quantity. The diagram shows that the change in consumer surplus is represented by the trapezoid P1P2ab and the part of the tax received by the government from the consumers is P1P2 per unit. Indeed, the consumers are suffering a lot from the tax introduction. First of all, they pay way more (P1P2) for buying their soda. Also, some Philadelphians just like Michael Solomon are crossing the city borders to escape the taxation. However, the opportunity cost (transport and time) may become significant in the long term for the majority living far from the borders, as explains the mayor's spokesman Mike Dunnin the article.

However, the outcome of the tax is much beneficial for soda consumers as they will substitute sugary goods. Indeed, “ the people buy mostly 100 percent juice now”, reports the cashier Irene Rodriguez. Nevertheless, as Irene adds, the fact is consumers still buy, but not as much. Despite the fact that there is less customers, trendings will make that people begin to buy more and more healthy products and that will have a tremendous impact on the obesity and diabetes rates in the city.

Families will also be spending less money on healthcare in the long term. So for Philadelphians, economically speaking, the city’s evaluation might be correct concerning the bad short-term consequences and the probably better long-term consequences and the reliability of the Catalina’s survey is controversial, not taking for count restaurants, universities, hospitals and non-supermarket stores. The change in producer surplus is estimated by the trapezoid P1P3cb. Despite the fact that the change in consumer surplus is bigger, Philadelphian suppliers (stores, supermarkets) are the ones who suffer the most in the short term.

According to Catalina backed by the spokesman of Ax the Beverage tax campaign Anthony Campisi, as the sales are exploding outside the city boundaries (38%), the sales are free-falling inside the city (55%). As the diagram shows, the first consequence is the loss in total revenue (P1P3×Q2 paid to the city). Most of Philadelphian suppliers are quite versatile and can reallocate their resources to sell other products so they do not pay taxes but here is the nightmare because according to Catalina, even the sales of those unsweetened products have decreased due to the ignorance of the customers. The only suppliers that are benefiting of this situation are the off-city businesses.

Despite of all this negative note for suppliers, we can expect a turnaround in the long term when Philadelphians will be better informed and more conscious of the benefits of the tax. Nevertheless, this turnaround is not likely to affect the situation of the big-scale suppliers (firms like Coca-Cola and Pepsi) whose losses of revenue and jobs will carry on.