SECTION 5.5 ELASTICITY AND TAXES

23. When demand is less elastic than supply, the tax burden falls primarily on consumers. When demand is more elastic than supply, the tax burden falls primarily on producers. The tax burden of a tax on food would fall primarily on consumers while the tax burden of a tax on basketball tickets would fall primarily on producers.

24. Relative inelasticities of supply and demand determine the incidence of a tax. If the difference between the short-run and long-run elasticity was greater on one side of the market than the other, the long-run incidence could be dramatically different than the short-run incidence. For example, if supply was very inelastic in the short run but very elastic in the long run, suppliers could bear most of the short-run burden of a tax, but very little of the burden in the long run.
    Since the greater long-run elasticities of supply and demand lead to larger reductions in the quantity exchanged, the revenue from a given tax would tend to decrease over time, other things being equal.