Chapter 9

REVIEW CONCEPTS

Ad Valorem Tax: Is based on the assessed value of an item such as real estate or personal property. It is a percentage markup of the price.

Arbitrage: Buying where a good or service is cheaper and reselling it where it has a higher price.

Crowd-out and Crowd-in: The relationship between two revenue sources. Crowd-out means an increase in the first source causes a decrease in the second, and crowd-in means an increase in the first source causes an increase in the second. Commonly applied to the relationship between commercial revenue and donations, or between donations and government funding.

Economies of Scope: Decreases in average total cost made possible by increasing the number of different goods produced.

Excise Tax: A tax on use or consumption of certain products. Excise taxes (also called "duties") are sometimes included in the price of a product, such as motor fuels, cigarettes, and alcohol.

Full Marginal Cost: When there are revenue interactions, the full marginal cost of producing an output is the sum of the marginal production cost and marginal reduction in donations.

Labor: A factor of production when human effort is rented and directed to produce goods or services.

Marginal Product of Labor: The additional output when labor is increased by one unit and all other factors of production are held constant.

Market Demand for Labor: The relationship between the quantity of a particular kind of labor that employers would like to hire and the wage rate.

Minimum Wage: A legally specified minimum rate of pay for labor employed in covered occupations and industries.

Perfect Price Discrimination: A set of personalized prices for each unit of a good or service sold to each possible buyer. Prices are set equal to a person’s willingness to pay for that unit.

Per-unit Sales or Excise Tax: A tax consisting of a fixed dollar amount for each unit purchased.

Per-unit Subsidy: A negative tax consisting of a fixed dollar amount for each unit purchased.

Price Discrimination: The practice of selling the same good/service at different prices to different customers and/or charging different prices for different units purchased by the same individual.

Tax Incidence: The manner in which the burden of the tax is shared among economic constituencies (consumers, employees, employers, etc.). The statutory tax incidence states who is responsible for collecting taxes and sending them to the government. The economic tax incidence states whose prices are changed because of the tax’s effect on market equilibrium.

Value Marginal Product of Labor (VMPL): The extra value created by the employment of an additional unit of a factor of production. The VMPL for labor is the product of the marginal product of labor and the price (if the output market is competitive) or more generally, marginal revenue or marginal societal benefit, measured in dollars per unit of labor.
EXERCISES

1. Analyze the incidence of a hotel tax that is designed to raise revenues for local arts organizations by taxing city visitors who stay in downtown hotels. Graph the general shape of the demand and supply functions for hotel rooms, making a reasonable guess about slopes in the short run and the consequent incidence of the tax. What factors will determine how much revenue arts organizations will receive from the tax? Then conduct the same exercise using long-run supply and demand.

2. Suppose a nonprofit art museum opens a gift shop and sells commercial art supplies which it claims will encourage amateur artists. Analyze what you think will be the impact on sales if the government decides that these sales constitute “unrelated income” and collects unrelated business income tax on profits from the sale of commercial art supplies.

3. A community health clinic operates in a heterogeneous neighborhood with families having a wide range of incomes. It offers a variety of services from urgent care to elective cosmetic procedures. If the clinic depends mostly on fees and wishes to ensure that all community residents are well served, how can a strategy of price discrimination be designed to foster this objective? How can the strategy of cross-subsidization also be usefully employed in this case?

4. Suppose a nonprofit nursing home is dependent on private donations for a major portion of its revenues but is considering various ways of increasing earned income to strengthen its financial base. Which of the following possibilities are likely to have a significant effect on donations and which ones are not? Explain your reasoning in each case:
   (a) Charging extra for meals and snacks;
   (b) Putting in a cappuccino bar and selling gourmet coffee to residents;
   (c) Selling crafts made by elderly residents;
   (d) Developing and marketing a new line of sports clothing for senior citizens;
   (e) Raising prices for basic residential care.

5. Consider a specific organization you have worked for or volunteered at. What are the advantages and disadvantages of starting a new commercial operation within that organization? Apply the tools of this chapter where appropriate and your own knowledge of the particulars where the tools are not quite appropriate.

6. Suppose that a mental health clinic decides that in order to make its services more affordable, it will lower its prices. How would this affect the clinic’s demand for labor if it follows the conventional logic of choosing its labor input based on maximizing its financial surplus (profit)? Do you think this approach to calculating the clinic’s demand for labor is appropriate in light of the organization’s likely mission? Why or why not?