

ECON 166

November 22, 2011

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Four Topics

- Property taxes in budget constraint of a HH
- Individually optimal tax-expenditure package
- Jurisdictional balanced budget constraint
- Housing policy: your ideas

Budget constraint of HH

- $M = G + (1+t)pH$
- Graph
- Shifts of budget line

Individually Optimal Consumption Bundle

- **Given** income, prices and tax-expenditure package
- Max $U(G,H,y)$ subject to HH constraint
- Graph and comparative statics

Indirect Utility

- Max $U(G,H,y)$ s.t. HH budget constraint yields
- $G^*(p,M,t,y)$
- $H^*(p,M,t,y)$
- Substitute these into utility function gives
- $V(t,y) = U(G^*(p,M,t,y), H^*(p,M,t,y), y)$
- The indirect utility function in (t,y) space

Indirect Indifference Curve

- How does V change when t changes? (show)
- How does V change when y changes? (show)
- What sign are these changes? Why?

Jurisdictional Balanced Budget Constraint

- $c(y)$ less than or equal to tpH
- Graph this

Extra Credit

- What empirical evidence is there that people have different preferences over tax-expenditure packages?
- 3 to 5 sentences
- Due by tomorrow 11:59pm
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