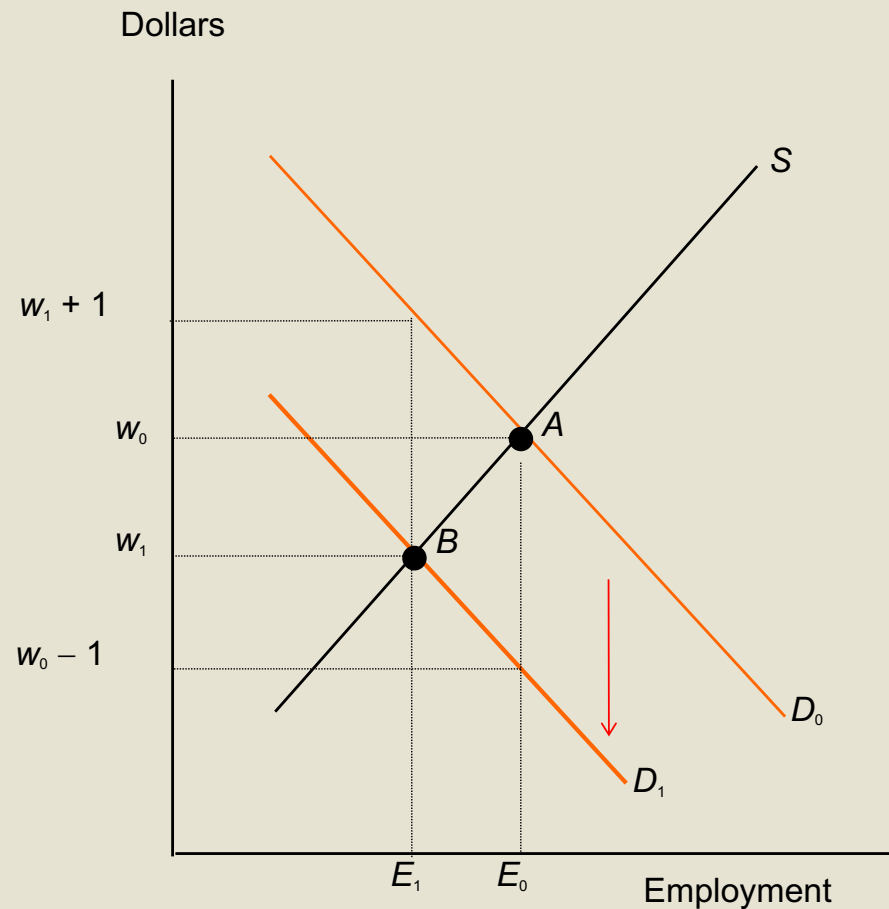


Payroll Taxes and Subsidies

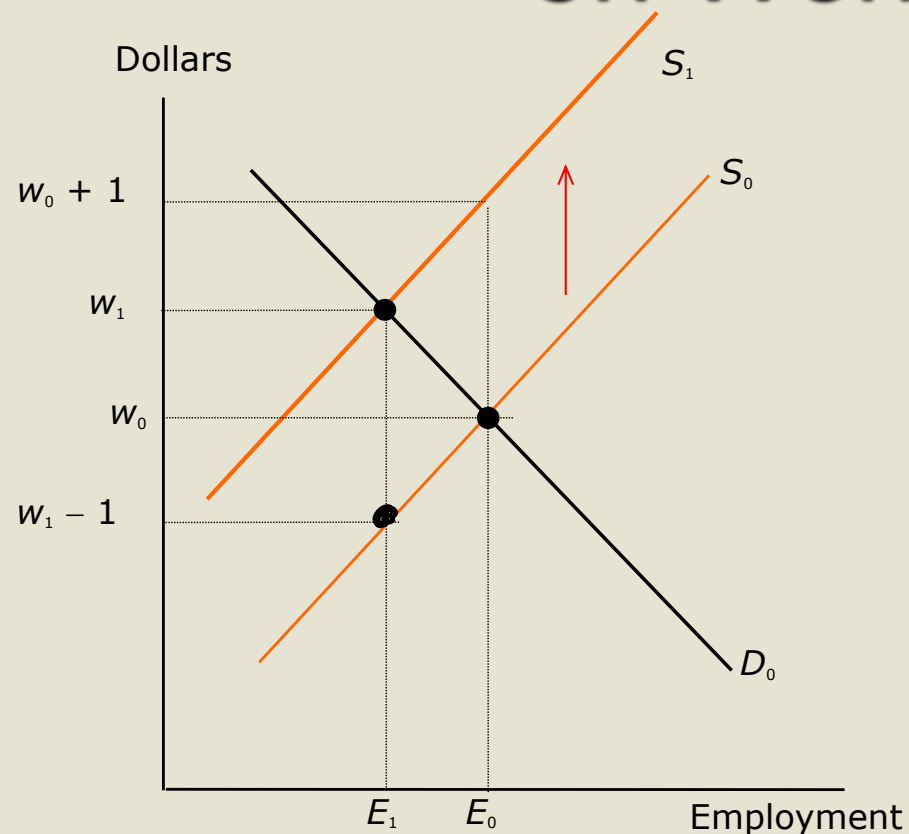
- Payroll taxes assessed on employers lead to a downward, parallel shift in the labor demand curve.
 - The new demand curve shows a wedge between the amount the firm must pay to hire a worker and the amount that workers actually receive.
 - Payroll taxes increase total costs of employment, so these taxes reduce employment in the economy.
 - Firms and workers share the cost of payroll taxes, since the cost of hiring a worker rises and the wage received by workers declines.
 - Payroll taxes result in deadweight losses.

The Impact of a Payroll Tax Assessed on Firms



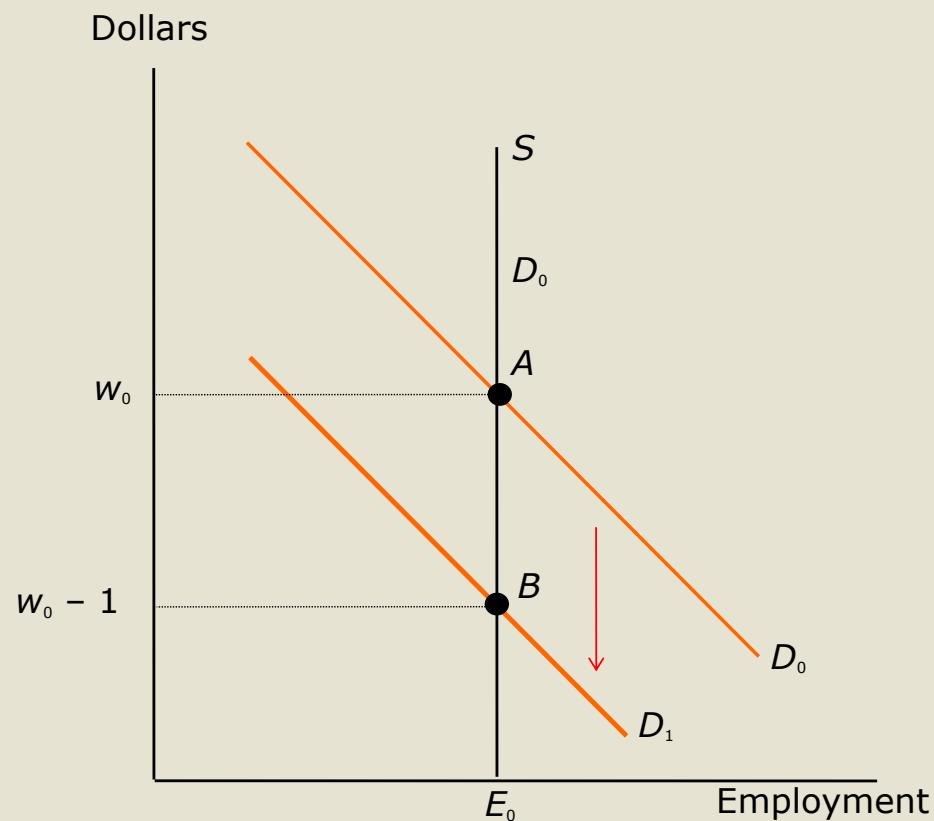
A payroll tax of \$1 assessed on employers shifts down the demand curve from D_0 to D_1 (it's a structural change independent from E). The payroll tax decreases the wage that workers receive from w_0 to w_1 , and increases the cost of hiring a worker from w_0 to $w_1 + 1$.

The Impact of a Payroll Tax Assessed on Workers



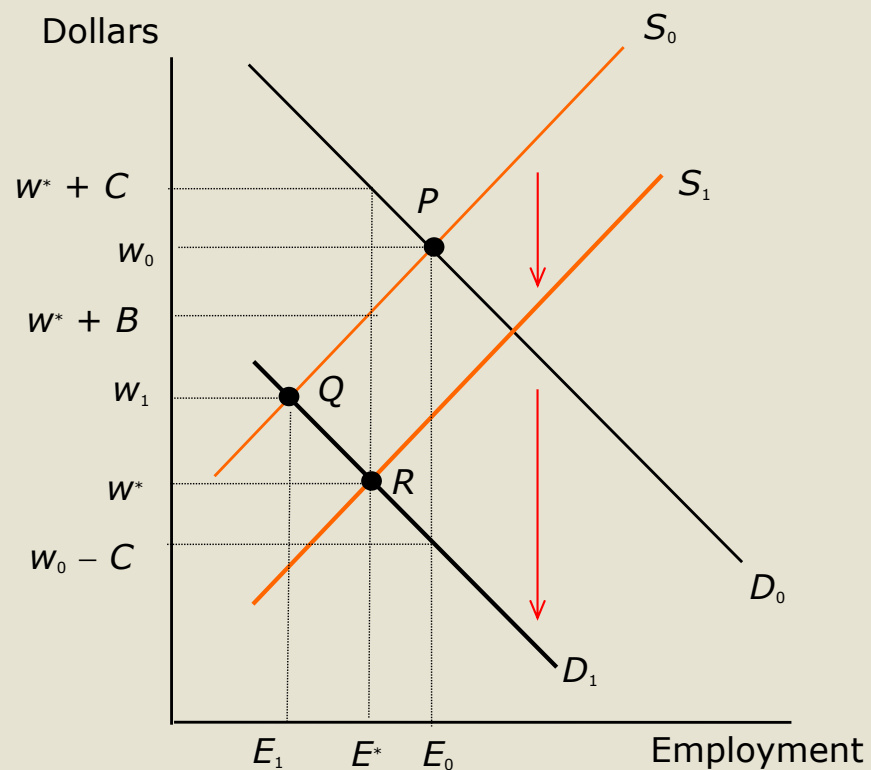
A payroll tax assessed on workers shifts the supply curve to the left (from S_0 to S_1): reduces the salary from w_0 to $w_1 - 1$, and increases the cost of labor from w_0 to w_1 . The payroll tax has the same impact on the equilibrium wage and employment regardless of who it is assessed on.

The Impact of a Payroll Tax put on Firms with Inelastic Supply

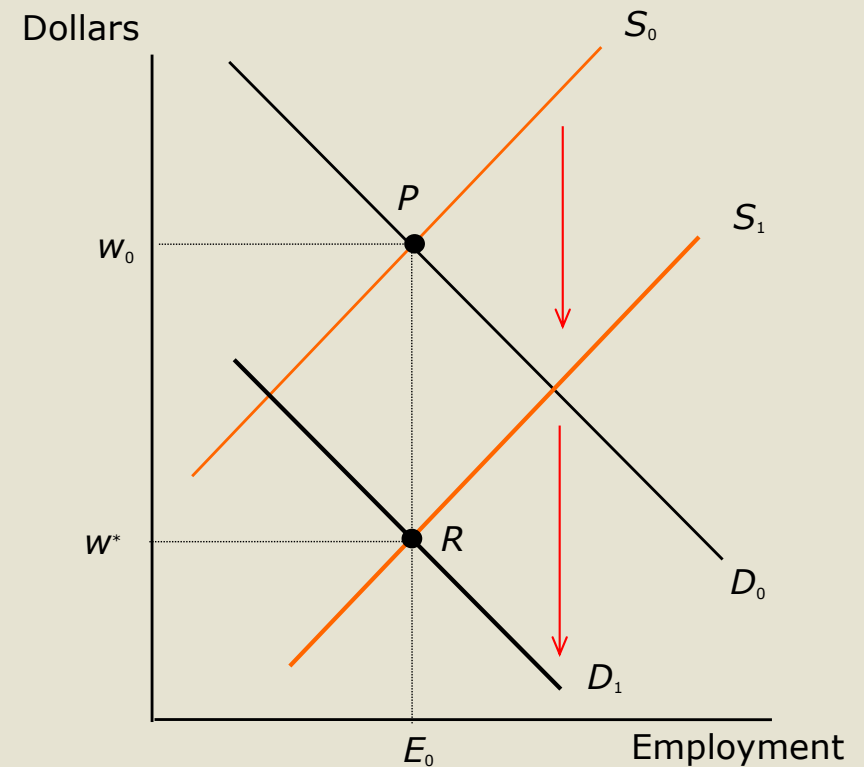


A payroll tax assessed on the firm is shifted completely to workers when the labor supply curve is perfectly inelastic. The wage is initially w_0 . The \$1 payroll tax shifts the demand curve to D_1 , and the wage falls to $w_0 - 1$.

The Impact of a Mandated Benefit



(a) Cost of mandate (C) exceeds worker's valuation (B)



(b) Cost of mandate equals worker's valuation ($C = B = w_0 - w^*$)