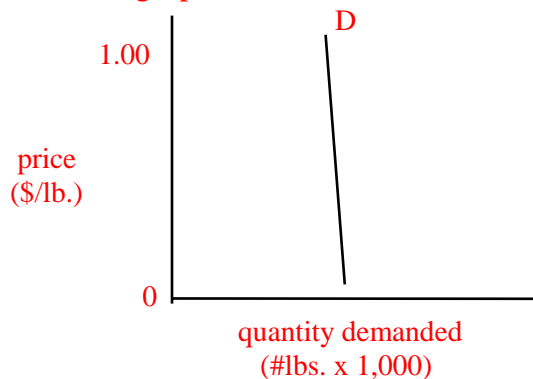




"Salt is a very ancient and very universal subject of taxation."  
- Adam Smith  
*The Wealth of Nations* (1776)

Consider the graph below to be the demand curve for salt in 1776.



Please respond briefly to each of the following questions in your notebook.

1. What is salt used for today?
2. What was salt used for in 1776 that it isn't used for today?
3. What are the substitutes for salt when used in the ways we use it today?
4. What are some substitutes for salt when used for what it was used for in 1776?
5. Why would governments in Adam Smith's day, and earlier, choose to tax salt?
6. Why don't governments tax salt as heavily these days?

When people buy about the same amount of the product regardless of what the price is, economists say that the product's demand is **inelastic**. On the other hand, when the quantity demanded of a product changes a bunch when the price changes, economists say the product's demand is **elastic**.

7. Would government be better off taxing products that have elastic demand or products that have inelastic demand?
8. Would you support a tax on insulin? Why or why not?
9. You are the President of Morton's Salt Company. Congratulations! The stockholders want higher profits. Would you increase the profits of your firm if you increased prices? Why or why not?
10. "When it rains, it pours." Explain what Morton's is attempting to do with its famous slogan. [Hint: what do you suppose the term product differentiation means?]