

# Environmental Economics

## Economists on Environmental and Natural Resources

### News, Opinion, Analysis (and Other Stuff)

October 21, 2010

### Econ 101 Supply-Demand Example of the Day

I'm always looking for supply and demand examples I can use in class that will engage the interests of 18-22 year olds. [I think this will work.](#)

Cash-strapped California would get some relief by legalizing pot, but the biggest boost would be thanks to massive law enforcement cuts, not new tax revenue, experts say.

The state's marijuana legalization initiative known as Proposition 19 goes to the polls on Nov. 2. And there's been a lot of talk about taxing it to rescue the state from its budget woes. But even legalization's top advocates say the drug won't be a financial cure-all.

...

Most of the financial benefit would actually come from budget cuts - which means job cuts -- according to a report from the Cato Institute, a libertarian think tank in Washington, D.C. The institute estimates that legalization could add \$1.312 billion annually to California's coffers. But the forecast's breakdown calls for a savings of \$960 million in law enforcement costs and an additional \$352 million in tax revenue.

Questions for in-class discussion:

1. Under what market conditions will taxing a good increase revenues?
2. What about the increased tax revenue from the increased sales of Cheeto's and [Fourth Meal](#)? Huh? Bet they're not even counting that, are they?



Posted by Tim Haab on October 21, 2010 at 02:45 PM in [Teaching](#) | [Permalink](#)

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### Comments

Dr. Haab:

Demand and supply meet at a dynamic equilibrium according to F.A. Hayek. Given the Cheeto's and Fourth Meal effect, should we rename the concept a "dine-amic" equilibrium.

Posted by: [W.E. Heasley](#) | [October 21, 2010 at 10:22 PM](#)