Economics & Taxation Cheatsheet

A concise reference for key concepts in economics and taxation, useful for students, professionals, and anyone interested in understanding the principles that govern markets and fiscal policy.

Core Economic Principles

Basic Economic Concepts

Scarcity	Limited resources relative to unlimited wants, fundamental economic problem.
Opportunity Cost	The value of the next best alternative forgone when making a decision.
Supply and Demand	Model determining price and quantity in a market. Equilibrium is where supply equals demand.
Elasticity	Responsiveness of quantity demanded or supplied to a change in price or other factors.
Market Equilibrium	The point where the quantity demanded by consumers equals the quantity supplied by producers. This determines the market clearing price and quantity.
Gross Domestic Product (GDP)	The total value of goods and services produced within a country's borders in a specific time period.
Inflation	A general increase in prices and fall in the purchasing value of money.
Unemployment	The state of being without a job but actively seeking employment.

Market Structures

Perfect Competition	Many firms, identical products, free entry/exit, price takers.
Monopolistic Competition	Many firms, differentiated products, relatively easy entry/exit.
Oligopoly	Few firms, interdependent decisions, potential barriers to entry.
Monopoly	Single firm, unique product, significant barriers to entry, price maker.

Macroeconomic Goals

Economic Growth	Increase in the production of goods and services over time (GDP growth).
Price Stability	Maintaining a low and stable rate of inflation.
Full Employment	Minimizing unemployment while avoiding inflationary pressures.

Taxation Principles

Types of Taxes

Income Tax	Tax levied on individual or corporate income.
Sales Tax	Tax on the sale of goods and services.
Property Tax	Tax on the value of real estate and other property.
Excise Tax	Tax on specific goods, like alcohol, tobacco, or fuel.
Payroll Tax	Tax on wages and salaries to fund social security and Medicare.
Value Added Tax (VAT)	Tax on the value added at each stage of production.

Tax Systems

Progressive Tax	Higher-income earners pay a larger percentage of their income in taxes.
Regressive Tax	Lower-income earners pay a larger percentage of their income in taxes.
Proportional Tax (Flat Tax)	All income earners pay the same percentage of their income in taxes.

Tax Efficiency and Equity

Tax Efficiency: A tax system is efficient if it minimizes distortions in economic behavior and administrative costs.

Tax Equity:

- **Horizontal Equity:** Individuals with similar income should pay similar taxes.
- **Vertical Equity:** Individuals with different income levels should pay different amounts of taxes, reflecting their ability to pay.

Fiscal Policy

Fiscal Policy Tools

Government Spending	Expenditures on goods, services, and transfer payments. (Infrastructure, education, defense)
Taxation	Levying taxes to generate revenue and influence economic activity.

Fiscal Policy Stances

Expansionary Fiscal Policy	Increases government spending or reduces taxes to stimulate economic growth. Used during recessions.
Contractionary Fiscal Policy	Decreases government spending or increases taxes to curb inflation. Used to cool down an overheating economy.

Automatic Stabilizers

These are features of the economy that automatically moderate economic fluctuations. Examples include unemployment benefits (increase during recessions) and progressive income taxes (decrease tax burden during recessions).

Monetary Policy

Monetary Policy Tools

Open Market Operations	Buying and selling government securities to influence the money supply and interest rates.
Reserve Requirements	The fraction of deposits banks are required to keep in reserve at the central bank.
Discount Rate	The interest rate at which commercial banks can borrow money directly from the central bank.
Interest on Reserves	The interest rate paid by the central bank on commercial banks' reserve balances held at the central bank.

Monetary Policy Stances

Expansionary Monetary Policy	Lowering interest rates or increasing the money supply to stimulate economic growth.
Contractionary Monetary Policy	Raising interest rates or reducing the money supply to curb inflation.

Inflation Targeting

A monetary policy strategy where the central bank announces an explicit inflation target and commits to adjusting monetary policy to achieve that target. This enhances transparency and accountability.