Looking at an excise tax levied on all consumers for a generic good, demand shifts down by the amount of the tax. The total price consumers pay is still represented by the original demand curve, but the price suppliers receive is represented by the new demand curve (D_T). The original equilibrium is price P_0 and quantity Q_0. With the tax, the consumer price increases to P_C and the supplier price decreases to P_S; the quantity produced decreases to Q_T.

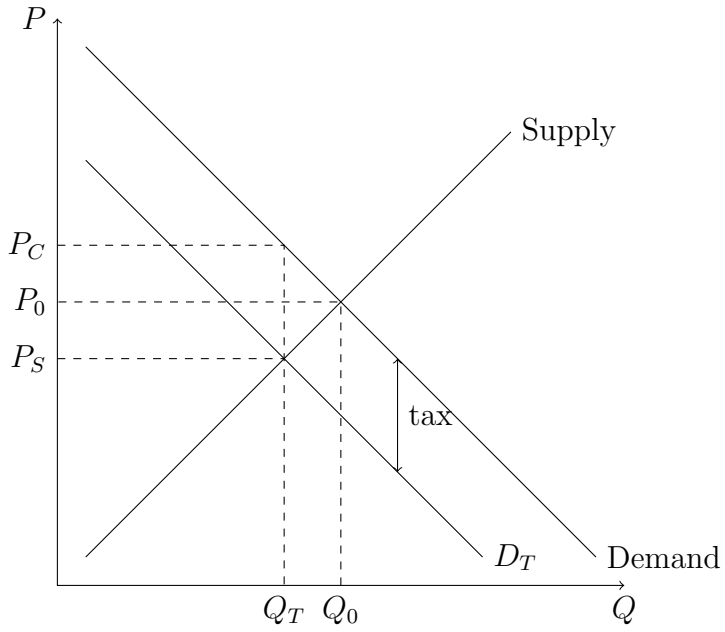
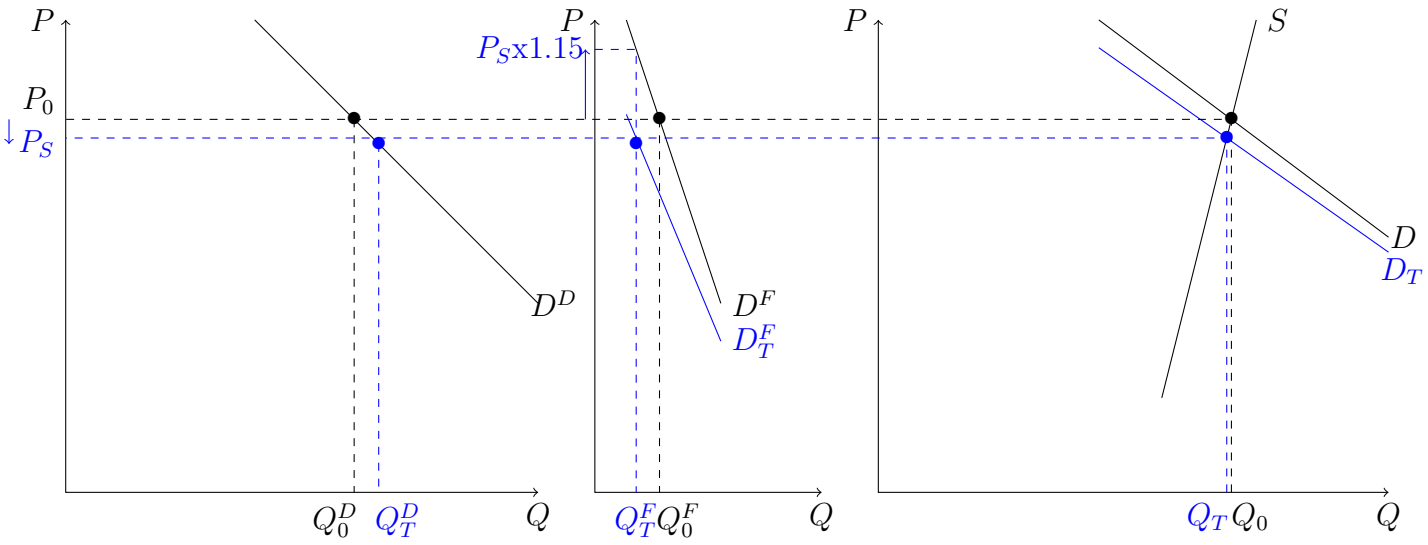


Figure 1: Excise Tax on Consumers

Focusing on the foreign property transfer tax, there are two significant differences in this stylized analysis. First, the tax is only imposed on foreign purchasers. So the demand for housing by foreign purchasers will change, but the demand for housing by domestic purchasers will be the same. Second, the number of dwellings is less responsive to the price of housing than the generic good (the supply curve is steeper).

The (aggregated) demand for housing is the sum of individual demand. We do not need to analyze each individual's demand, but we need to separate demand into Canadian citizens and permanent residents (domestic demand) and people subject to the foreign property transfer tax (foreign demand). Logically, the aggregate quantity demanded at a price is the sum of domestic quantity demanded and foreign quantity demanded at that price. Graph-

ically, this is horizontally summing the domestic and foreign demand curves to calculate the aggregate demand curve. Figure 2 (c) shows the equilibrium price of housing for all consumers (and sellers) is P_0 without the foreign tax.



(a) Domestic Demand (b) Foreign Demand (c) Aggregate Demand

Figure 2: Foreign Property Transfer Tax

To analyze how the price of housing will change with the foreign property transfer tax, we need to analyze how demand from each group of consumers changes. Domestic demand will not change because the tax does not apply to this group. Foreign demand will shift down by the amount of the tax. To determine the equilibrium price with the property transfer tax, we aggregate domestic demand and foreign demand with the tax. Figure 2(c) shows the equilibrium price for domestic consumers is P_S with the tax; the price for foreign consumers is P_S x 1.15.

These standard demand and supply graphs show that the foreign property transfer tax decreases housing prices for Canadian citizens and permanent residents, and increases prices for foreign purchasers. This analysis does not say anything about the magnitude of the price decrease from the 15 percent property transfer tax.