



Initially, $M=100, P_g=2$. (B_1)
 Then govt imposes a \$1 tax (B_2)
 But relates the entire tax. (B_3)
 So the consumer moves out along the IC until he reaches the original budget-line.
 In this example he consumes 17 gallons of gas, and gets \$17 more.
 The overall effect is to raise the relative price of gas, without reducing the person's income.
 \Rightarrow lower gas consumption.