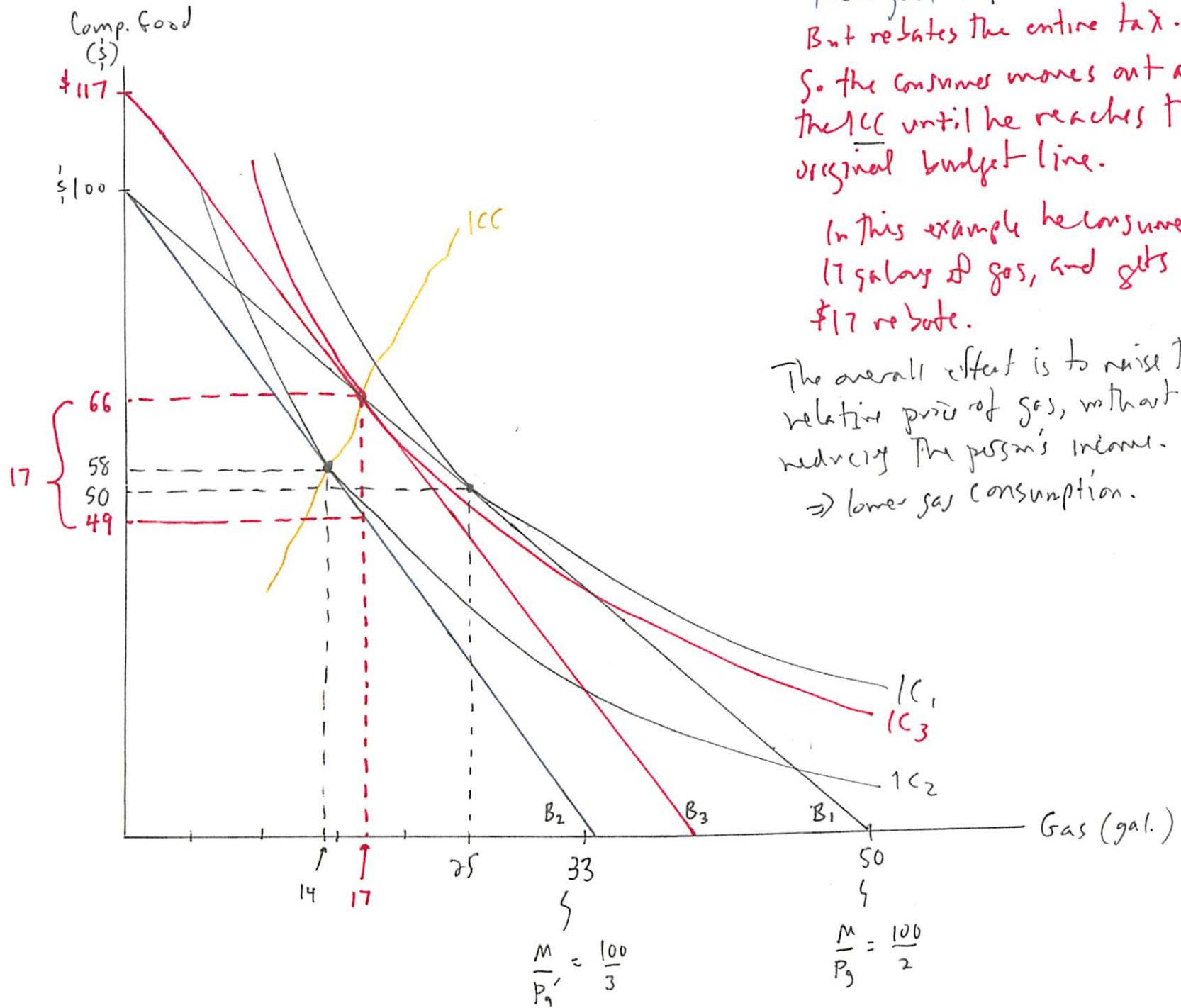


Example like Frank's Fig. 5.1 p. 141.



Initially,  $M=100$ ,  $P_g = 2$ . ( $B_1$ )  
 Then govt imposes a \$1 tax ( $B_2$ )  
 But rebates the entire tax. ( $B_3$ )  
 So the consumer moves out along the ICC until he reaches the original budget line.

In this example he consumes 17 gallons of gas, and gets \$17 rebate.

The overall effect is to raise the relative price of gas, without reducing the person's income.  
 $\Rightarrow$  lower gas consumption.