

# Principle of Maximum Social Advantage

---

Part III

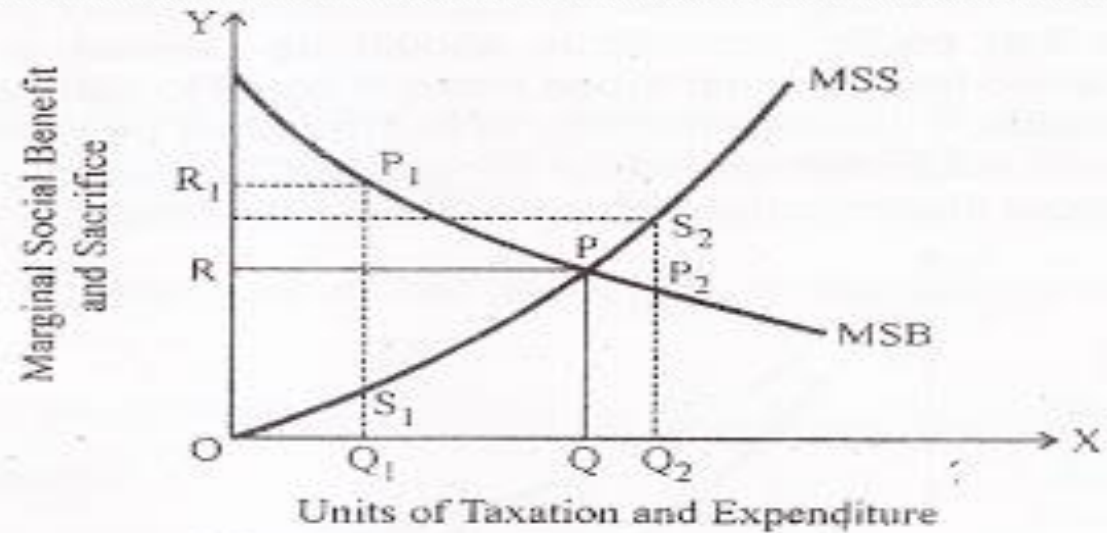
# Principle of Maximum Social Advantage

## ■ The Point of Maximum Social Advantage

---

- Social advantage is maximised at the point where marginal social sacrifice cuts the marginal social benefits curve.
- This is at the point P. At this point, the marginal disutility or social sacrifice is equal to the marginal utility or social benefit. Beyond this point, the marginal disutility or social sacrifice will be higher, and the marginal utility or social benefit will be lower.

# Principle of Maximum Social Advantage



**Maximum Social advantage is obtained at the Point of Intersection of MSS and MSB Curves**

## Principle of Maximum Social Advantage

---

- At point P social advantage is maximum. Now consider point  $P_1$ . At this point marginal social benefit is  $P_1Q_1$ . This is greater than marginal social sacrifice  $S_1Q_1$ . Since the marginal social sacrifice is lower than the marginal social benefit, it makes more sense to increase the level of taxation and public expenditure. This is due to the reason that additional unit of revenue raised and spent by the government leads to increase in the net social advantage. This situation of increasing taxation and public expenditure continues, as long as the levels of taxation and expenditure are towards the left of the point P.

## Principle of Maximum Social Advantage

- At point P, the level of taxation and public expenditure moves up to OQ. At this point, the marginal utility or social benefit becomes equal to marginal disutility or social sacrifice. Therefore, at this point, the maximum social advantage is achieved.
- At point P<sub>2</sub>, the marginal social sacrifice S<sub>2</sub>Q<sub>2</sub> is greater than marginal social benefit P<sub>2</sub>Q<sub>2</sub>. Therefore, beyond the point P, any further increase in the level of taxation and public expenditure may bring down the social advantage. This is because; each subsequent unit of additional taxation will increase the marginal disutility or social sacrifice, which will be more than marginal utility or social benefit. This shows that maximum social advantage is attained only at point P and this is the point where marginal social benefit of public expenditure is equal to the marginal social sacrifice of taxation.

To be continued -----