

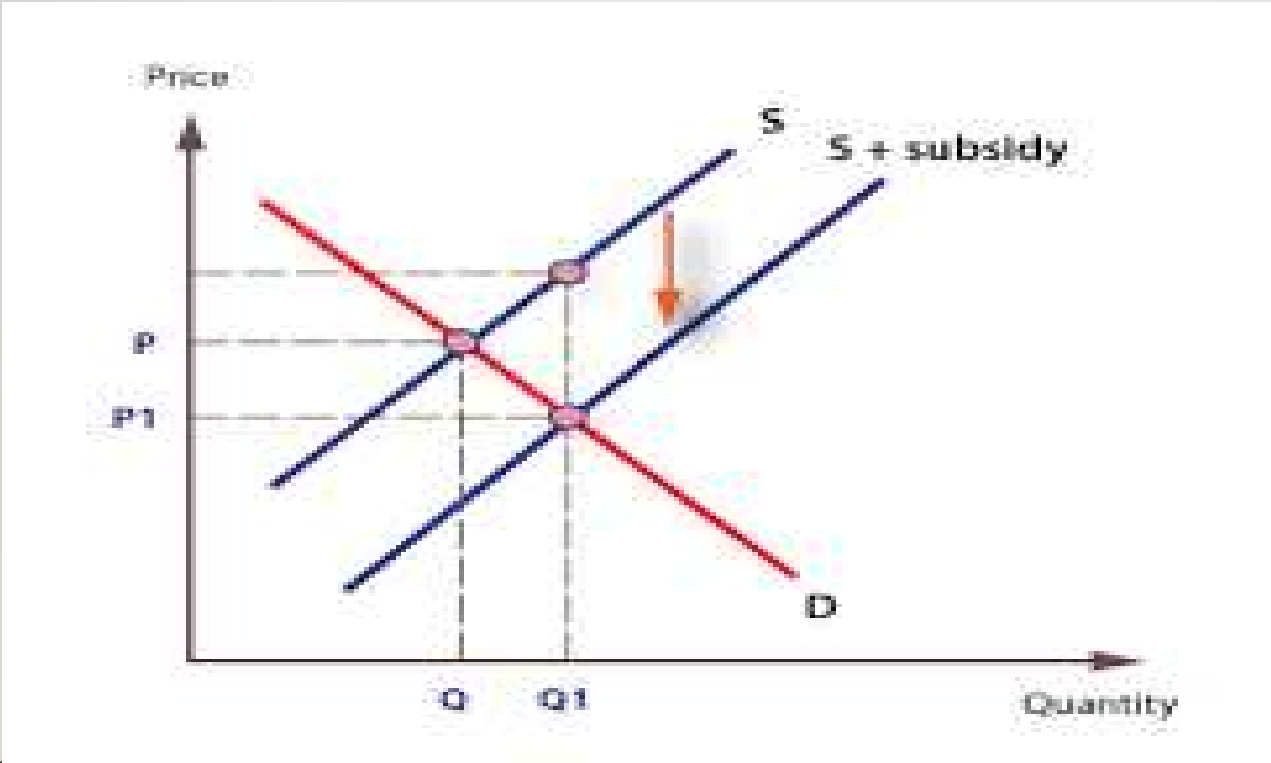
SUBSIDIES



WHAT IS A SUBSIDY

- Subsidies are a way of decreasing production cost for a firm.
- The government pays the producer money to make more of the good.
- These goods are usually merit goods
- This shifts the supply curve to the right

SUBSIDIES ON GRAPHS



ADVANTAGES AND DISADVANTAGES OF SUBSIDIES

advantages	disadvantages
Better for <u>societal welfare</u>	There is <u>no incentive</u> for firms to work as hard to supply the same amount of merit goods. <u>Production efficiency may decrease.</u>
Can help solve <u>excess demand issues</u>	<u>Costs</u> the government <u>money.</u>