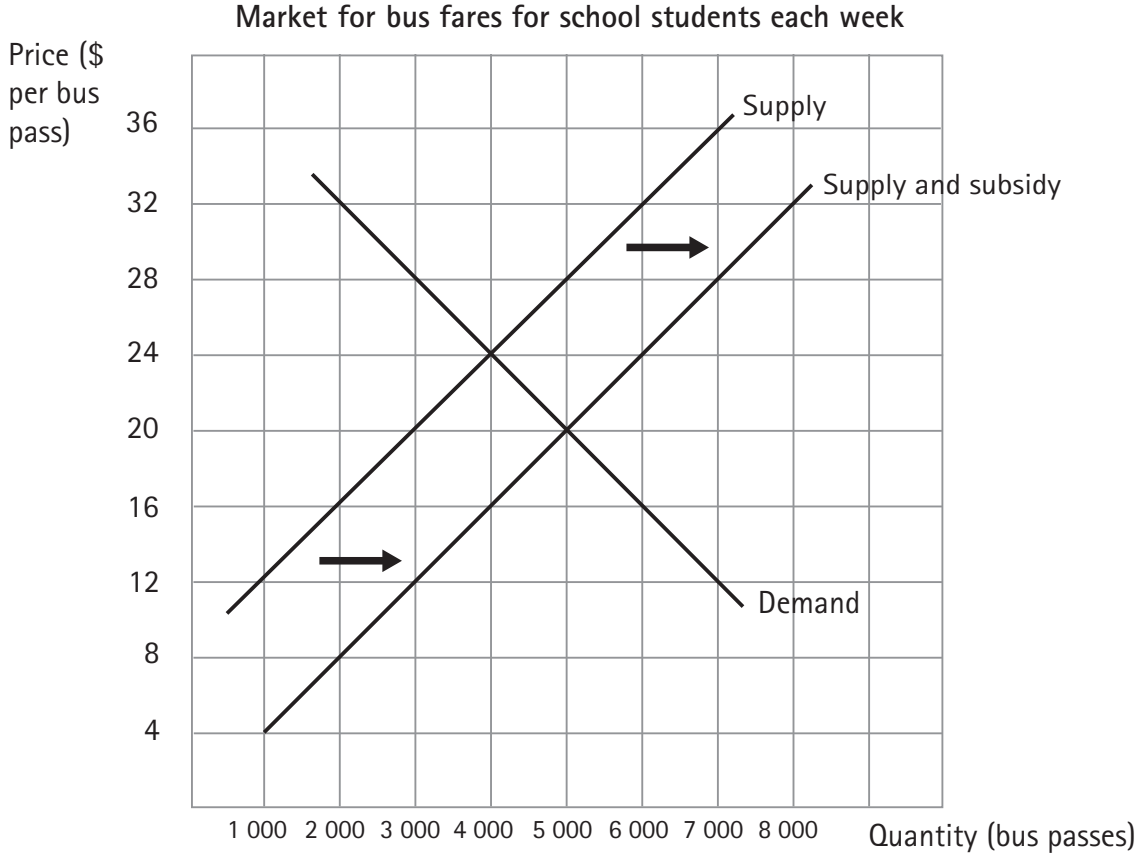
# eLearneconomics: Subsidy and the market (1)

## Student response




**a** Referring to the graph, identify:

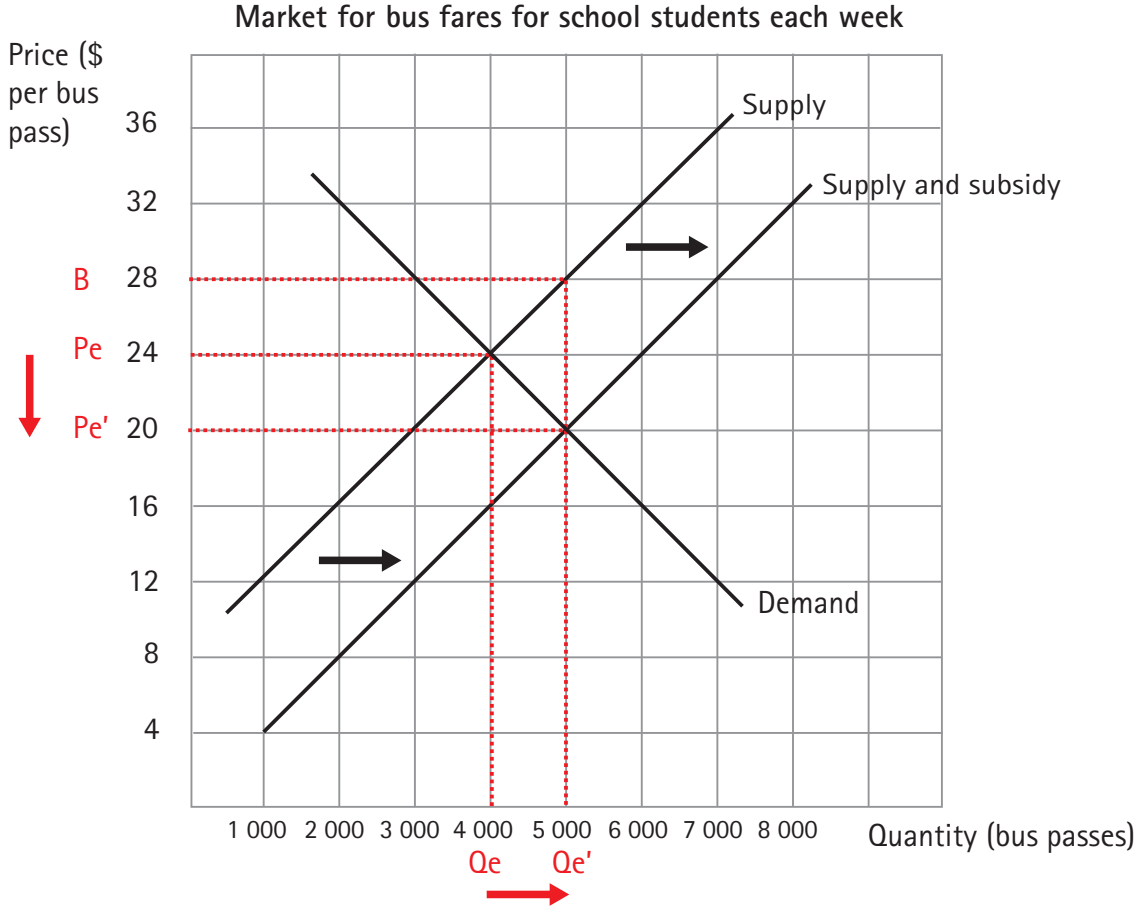
- the price the students pay before _____ after _____
- the price that producers receive before _____ after _____
- the total cost of the subsidy to the local council. _____

**b** Fully explain, using economic terms and figures from your graph, how a subsidy on bus fares would affect:

- consumers
- producers (suppliers)
- society in general.

# eLearneconomics: Subsidy and the market (1a)

## Solutions




a
- the price the students pay before $24 (Pe) after $20 (Pe')
- the price that producers receive before $24 (Pe) after $28 (B)
- the total cost of the subsidy to the local council. $8 x 5 000 = $40 000 (subsidy x Qe')

A subsidy is a payment by government to firms to keep costs down. As a result, firms will increase supply (shown as the outward shift of the supply curve) and the price will decrease. As price decreases from Pe ($24) to Pe' ($20) the quantity demanded of bus passes increases from Qe (4 000 passes) to Qe' (5 000 passes) because consumers can afford more. The value of consumer spending on bus passes increases from $96 000 to $100 000.

Producers will increase supply, that is, at each and every price there will be an increase in quantity supplied because firms are receiving a subsidy. The price they receive before will be $24 (Pe) and after $28 (B). The firms' revenue will increase from $96 000 to $140 000.

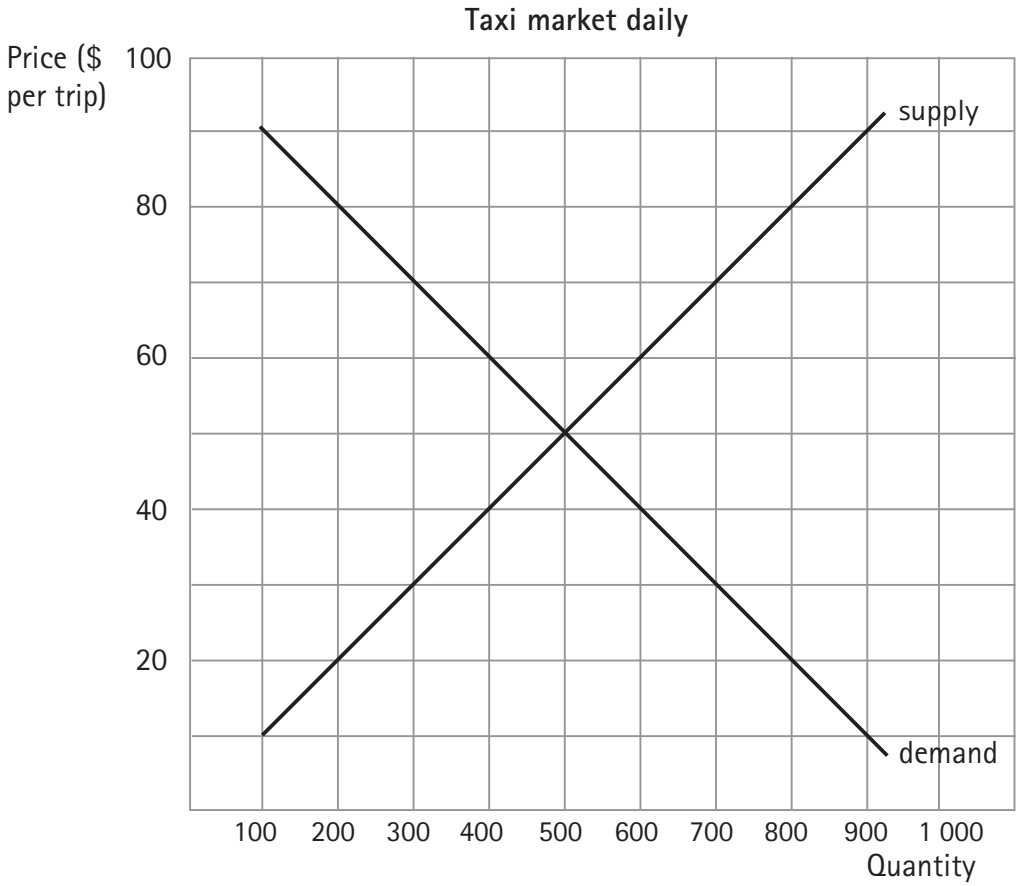
The local council will spend $40 000 a week on the subsidy. With fewer cars on the road because more students are catching buses there will be less congestion on the roads and fewer traffic hold-ups. Fewer cars on the roads will mean less pollution and quicker trips for motorists.

Comprehensive explanation of the effects of a subsidy by explaining the effect on consumers, producers and society. Figures and economic terms are correct and used in student's answers.

# eLearneconomics: Subsidy and the market (2)

## Student response

**a** Show the effects of a per-unit subsidy of $30 on taxi rides.

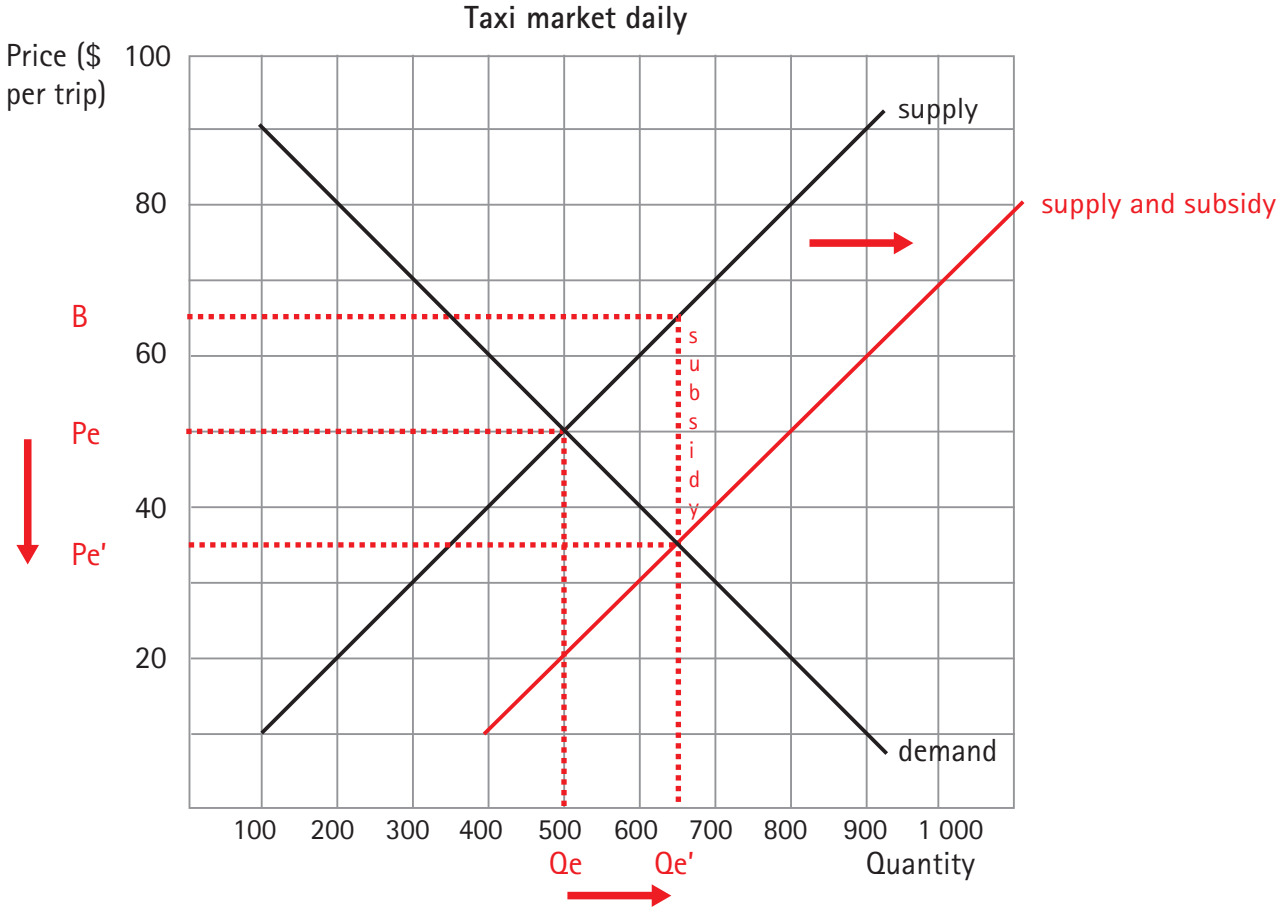



**b** Fully explain, using economic terms and figures from your graph, how a subsidy on taxi rides would affect:

- consumers
- producers (suppliers)
- society in general.

# eLearneconomics: Subsidy and the market (2)

## Solutions




A subsidy is a payment by government to firms to keep costs down. As a result, firms will increase supply (shown as the outward shift of the supply curve) and the price will decrease. As price decreases from Pe ($50) to Pe' ($35.00) the quantity demanded of taxi rides increases from Qe (500 rides) to Qe' (650 rides) because consumers can afford more. The value of consumer spending on taxi trips decreases from $25 000 to $22 750.

Producers will increase supply, that is, at each and every price there will be an increase in quantity supplied because firms are receiving a subsidy. The price they receive before will be $50 (Pe) and after $65.00 (B). The firms' revenue will increase from $25 000 to $42 250.

Taxi companies may need to put more taxis on the roads or extend drivers' shifts.

The cost of the subsidy to the government will be $19 500 ($30 x 650). With more individuals catching taxis it should reduce the number of drink-drivers on the road and there should be less pressure on hospitals and emergency services because there will be fewer drink-driving-related accidents.

Comprehensive explanation of the effects of a subsidy by explaining the effect on consumers, producers and society. Figures and economic terms are correct and used in student's answers.