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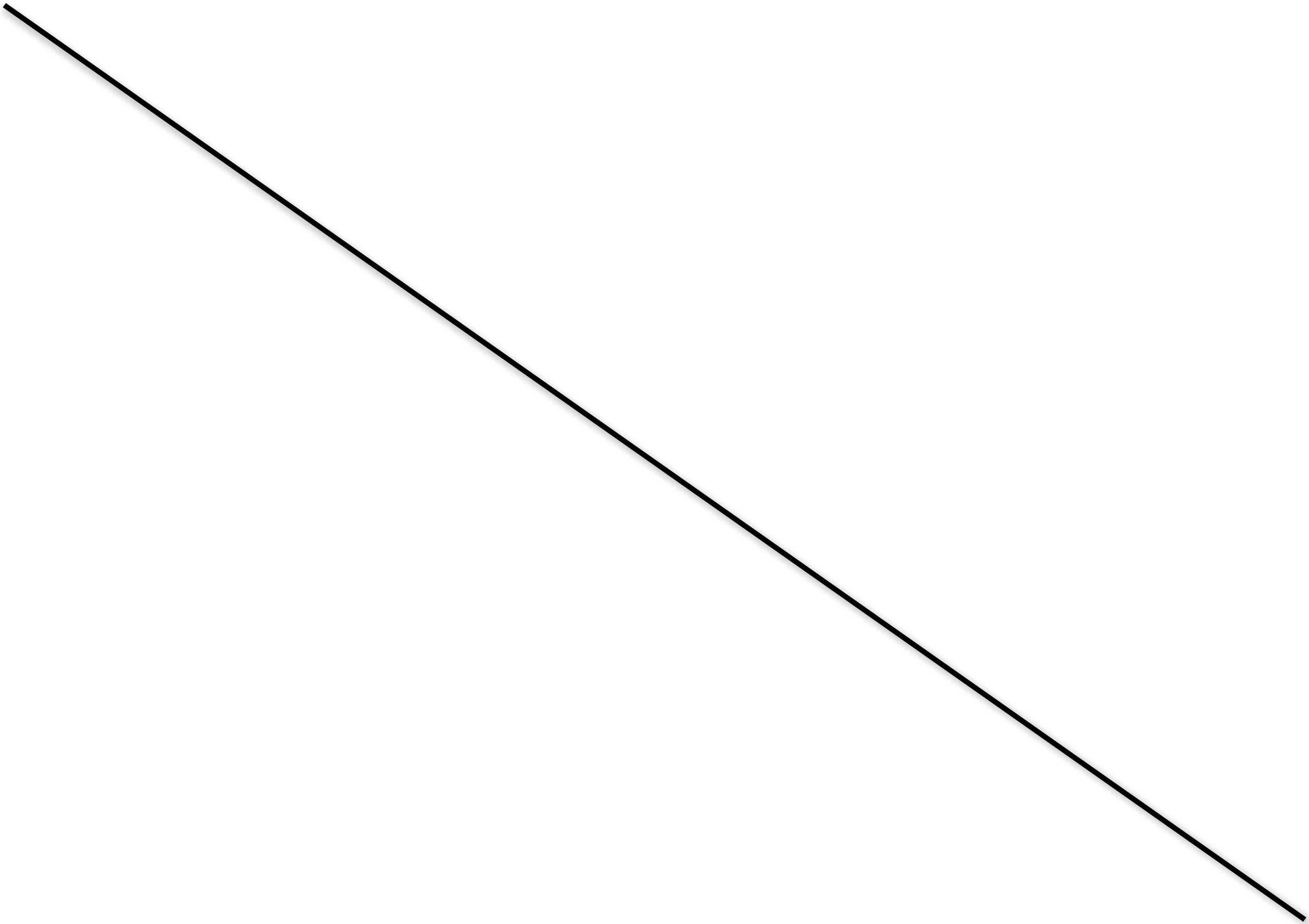

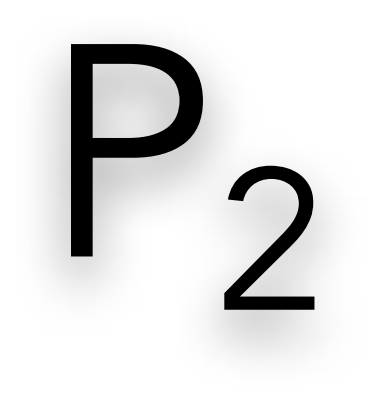
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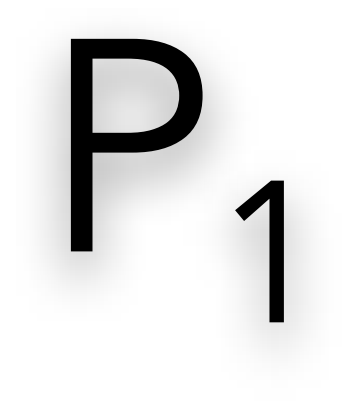
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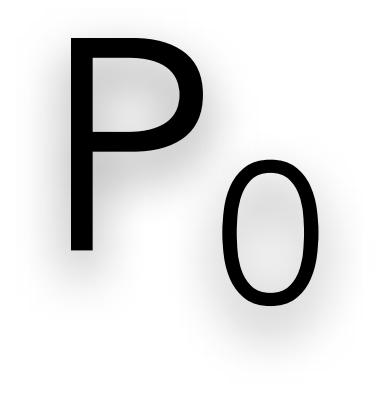
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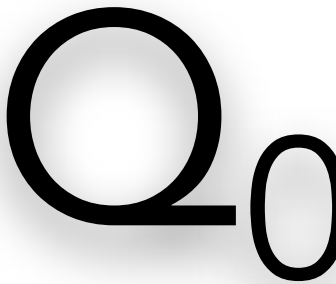
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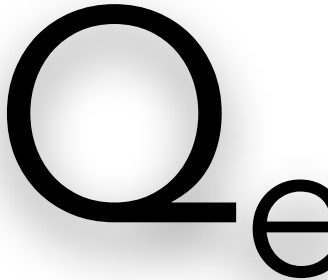

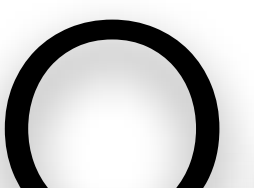
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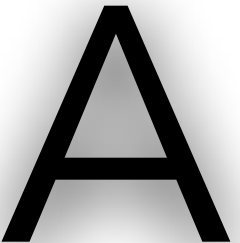

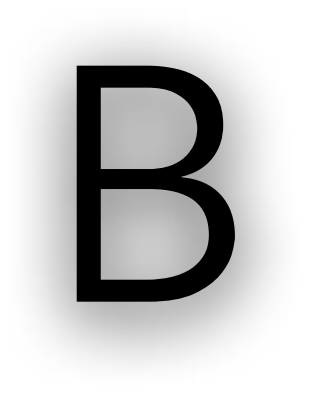
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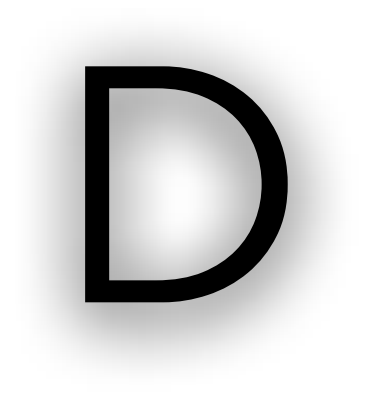
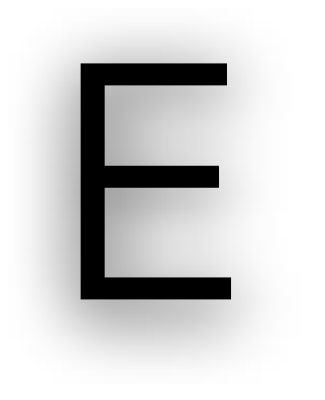
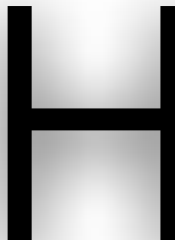
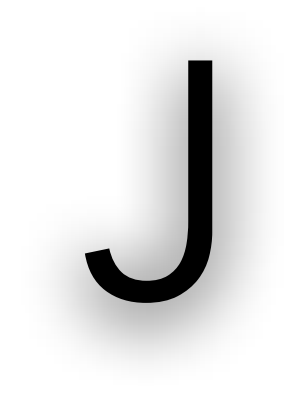
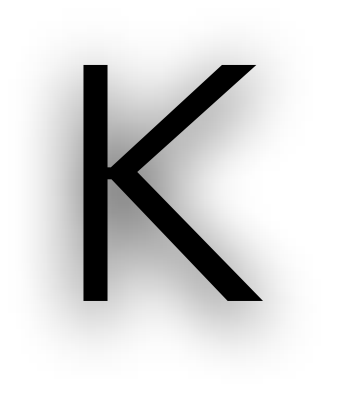










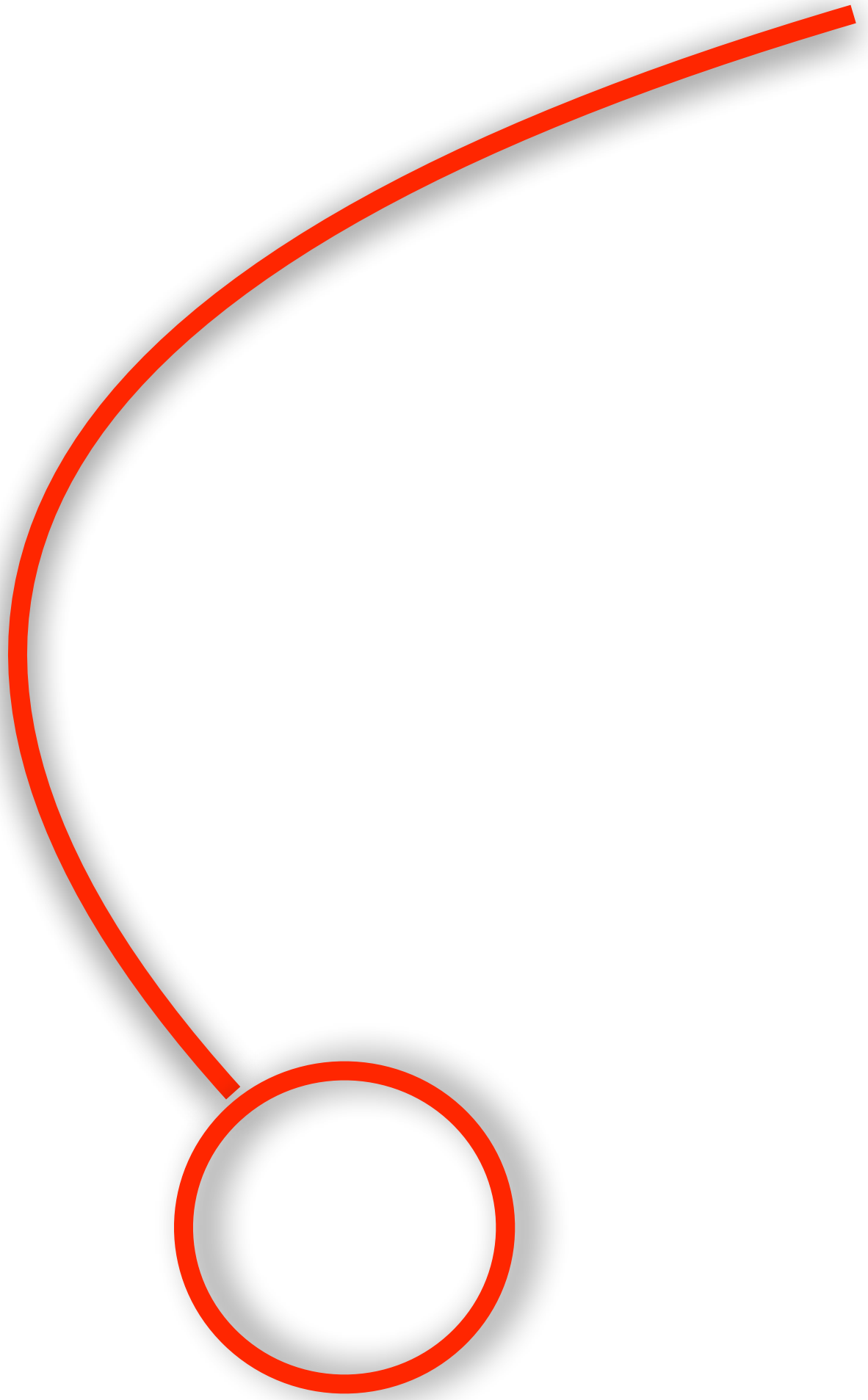
Example: Suppose the price is P_2

Consumer Surplus = The triangle area below the demand line and above the price the consumer pays

CS

L

Producer Surplus is the area above the supply line and below the price the producer receives



Consumer Surplus = Area L

Producer Surplus = Areas K + J + I

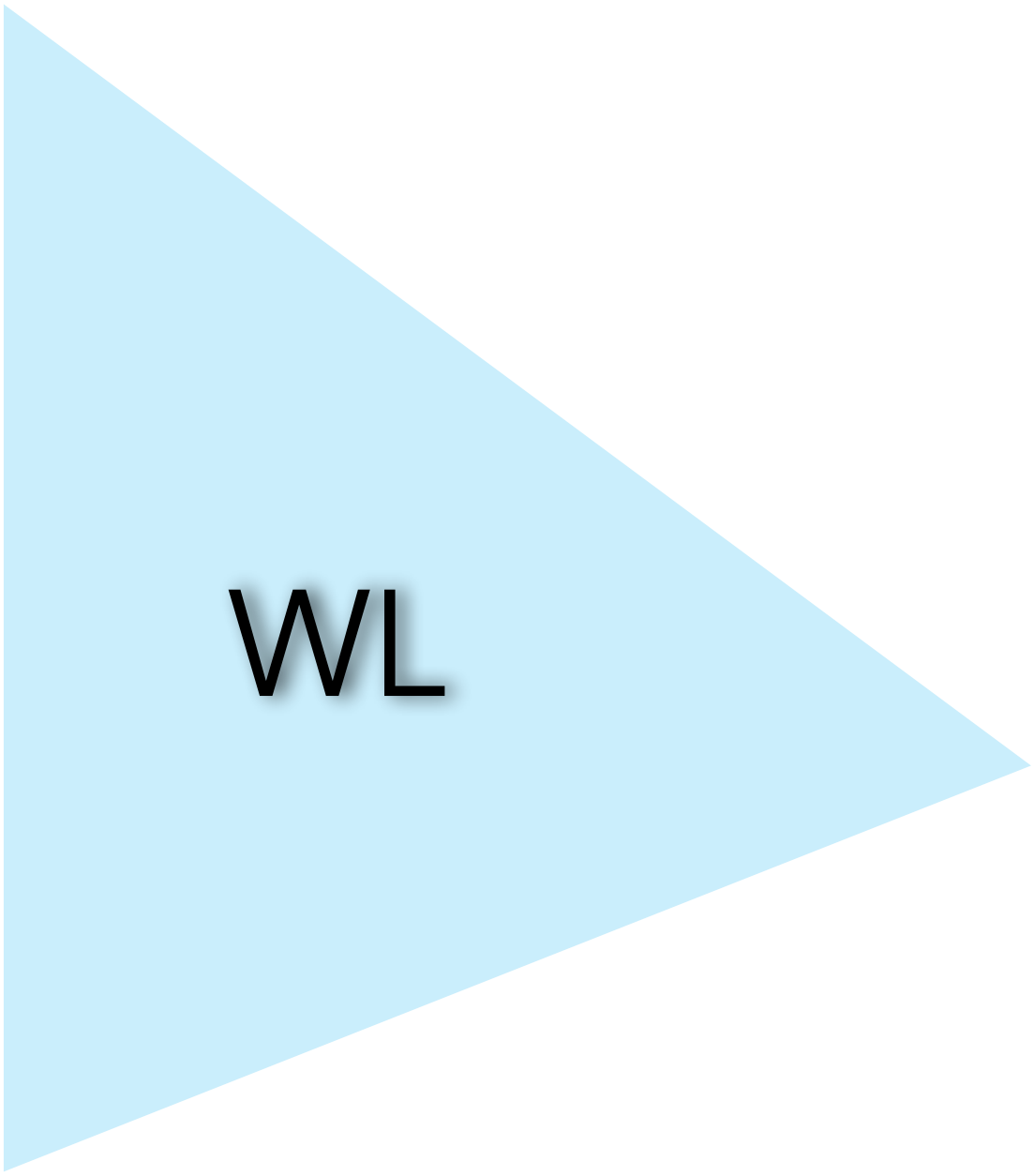
Welfare Loss = Areas M + H + G + F + E

Tax to: Consumers who lose areas K+J

Subsidy to: Producers who gain areas K+J

Tax/Subsidy = Areas K + J

PS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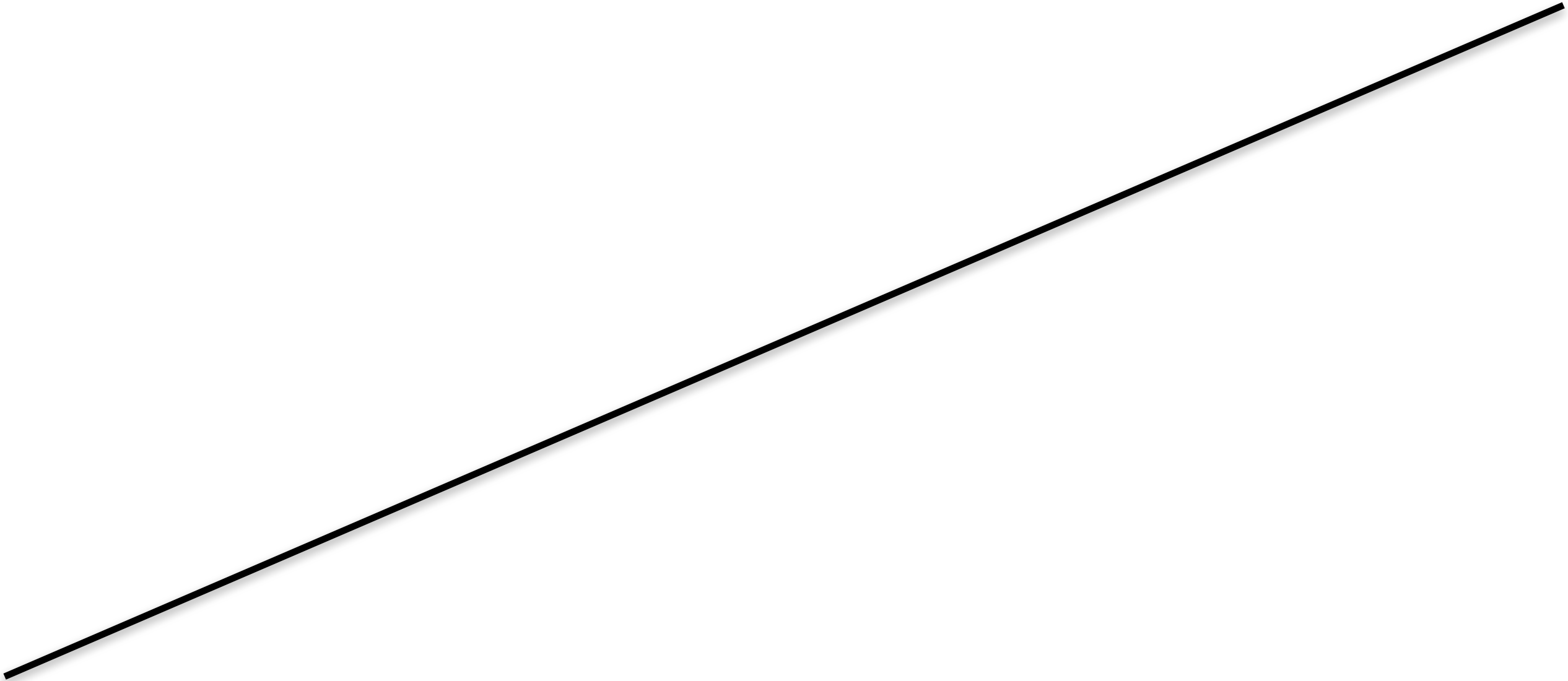


Welfare Loss is lost CS and PS relative to equilibrium

Tax = Lost CS

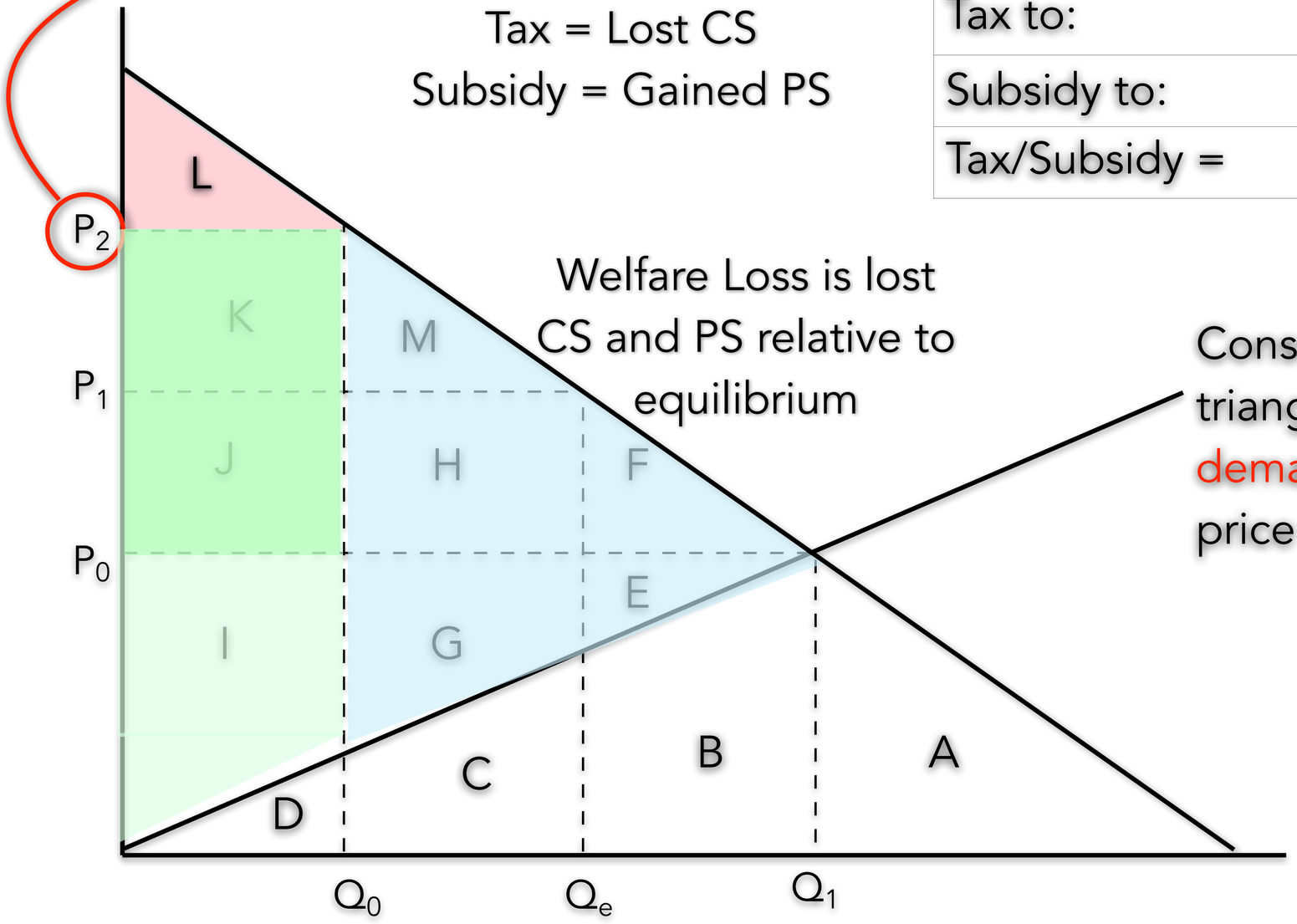
Subsidy = Gained PS

Tax to Consumer Subsidy to Producer

Example: Suppose the price is P_2

Tax = Lost CS
Subsidy = Gained PS

Consumer Surplus =	Area L
Producer Surplus =	Areas K + J + I
Welfare Loss =	Areas M + H + G + F + E
Tax to:	Consumers who lose areas K+J
Subsidy to:	Producers who gain areas K+J
Tax/Subsidy =	Areas K + J



Welfare Loss is lost CS and PS relative to equilibrium

Consumer Surplus = The triangle area below the demand line and above the price the consumer pays

Producer Surplus is the area above the supply line and below the price the producer receives