ECOHOLICS

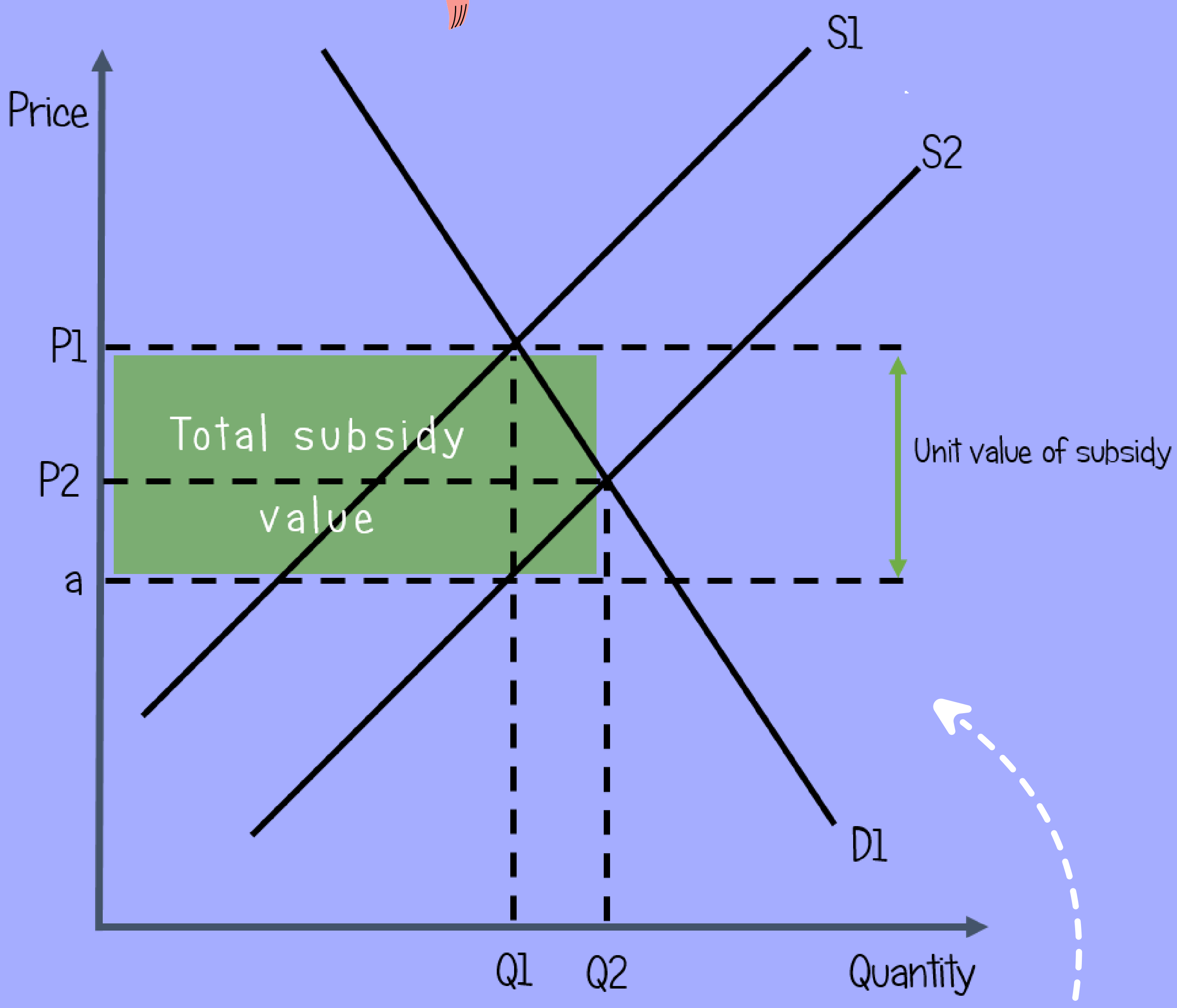
SUBSIDY

Subsidies are payments made by the government to producers to increase the supply of a particular good or service to a market.

IMPORTANCE

- In economics, subsidies are often used to address positive externalities to increase production or consumption.
- Externalities are spillover effects on third parties.
- Education is an example of a positive externality that may be subsidized.

GRAPH



- When the government gives subsidies to producers, their costs of production go down.
- This shifts the supply curve from S1 to S2.
- The new equilibrium point is where the demand curve meets the new supply curve.
- At this point, the price is lower (P2) and the quantity is higher (Q2).
- The amount of subsidy per unit is equal to the difference between S1 and S2 (a to P1).