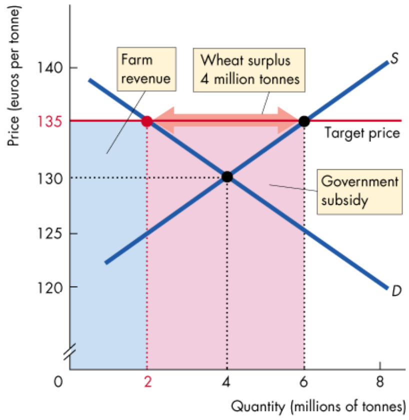
- Primary methods of intervention are:
  Price supports
  Quantity regulations
  Subsidies

A **price support** is the government guaranteed minimum price of a good (example EU CAP)



Taxes

- Everything you earn and almost everything you buy are taxed
- Who really pays these taxes?
- VAT (Value Added Tax) is added to the prices of the things you buy, so isn't it obvious that you pay these taxes?
- You're going to discover that it isn't obvious who really pays a tax and that lawmakers don't make that decision.
- **Tax incidence** is the division of the burden of a tax between the buyer and the seller

A tax on sellers

Supply decreases and the curve *S + tax on sellers* shows the new supply curve

Taxes and elasticity

Tax Division and Elasticity

- The division of the tax between buyers and sellers depends on the elasticities of demand and supply
- The more inelastic the demand, the larger is the buyers' share of the tax (example Alcohol, tobacco and petrol)
- The more inelastic the supply, the larger is the sellers' share of the tax (example workers pay most of the National Insurance contribution)

Taxes and efficiency