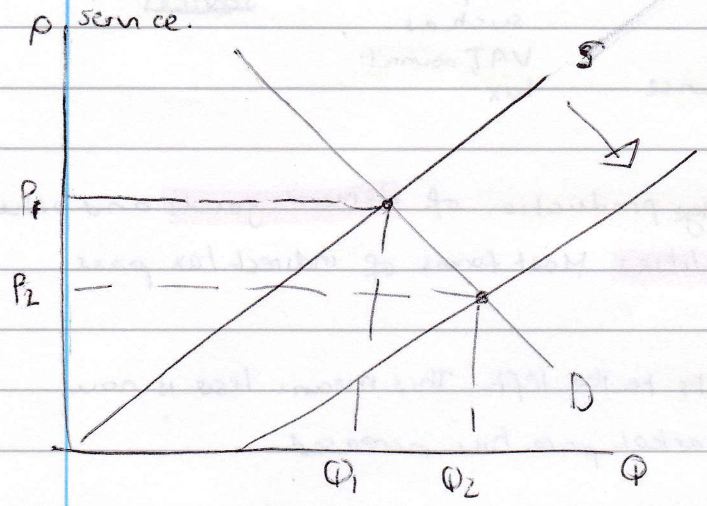
Subsidies

- A subsidy is a direct payment made by government to producers of a good or service.

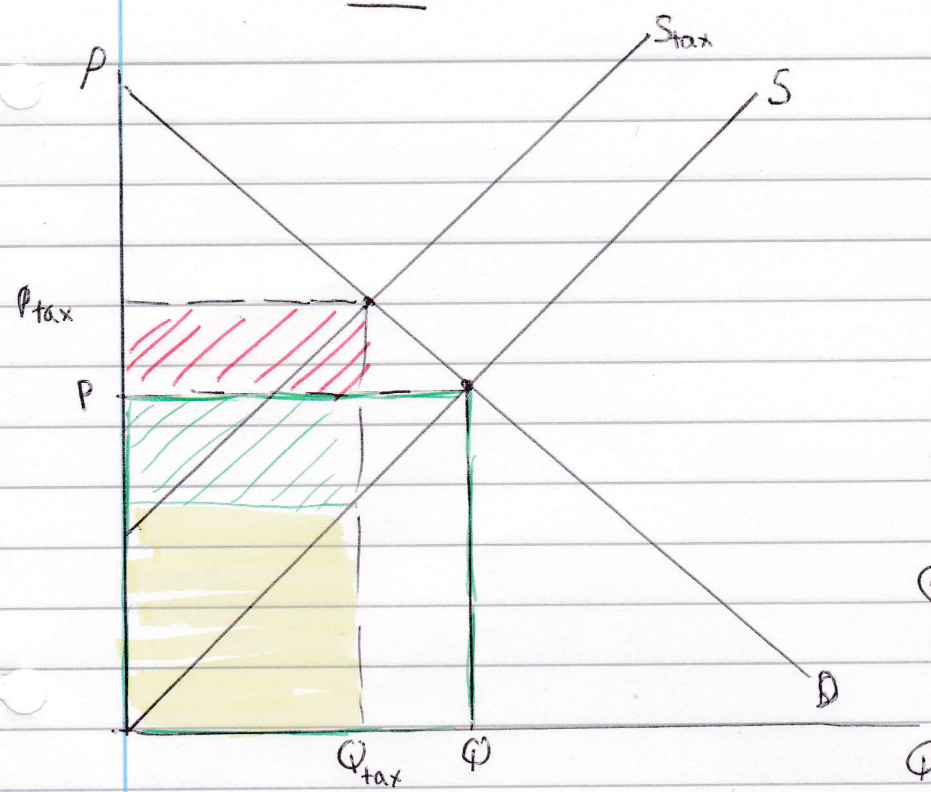


Subsidy ↑ Supply

Q ↑ P ↓

A subsidy works opposite to indirect tax.

Taxation



1. Tax ↑ costs of productions and shifts the curve to the left to Stax.
2. Decrease in supply leads to ↑P and ↓Q.
3. Increase in price means consumer surplus is lower
4. Firm pays a proportion of the tax lowering their revenue and profit
5. Government received tax revenue
6. ~~[illegible]~~ revenue is below the ~~[illegible]~~. The shaded green is the tax therefore the remaining yellow is the firms revenue

(P × Q)

Firm tax revenue

Consumer → part of the tax

Government revenue = +

Firms revenue

Indirect Tax - goes to the retailer

The more inelastic, consumers pay higher percentage than ~~tax~~ firms.

inelastic
- Fuel Duty
- Alcohol duty
- Cigarette Duty
- Green Tax

They just want to have tax revenue.

ADS	DADS
• Tax revenue for government	① • The tax may not be used to cover the social cost
• Reduces quantity which helps solve overproduction problem	• If fast food is inelastic, it doesn't reduce quantity as much. ~~inelastic won't fast buy~~
• Firms ~~get less tax~~ are not taxed as much if it is inelastic	• Depends on personal ~~pass~~ preference - may be elastic for some
① • May help reduce external costs - less likely to get diseases.	• Consumers get taxed more • Low incomes - until healthier foods are cheaper
• NHS pay less → used for campaigns or education programmes - encourage kids to be healthier	
→ more information	
• Less people are likely to buy it. Reduces consumption from increased prices.	— Depends on elasticity. Firms will still produce more ~~because~~ for inelastic.

Market failure + Government Intervention

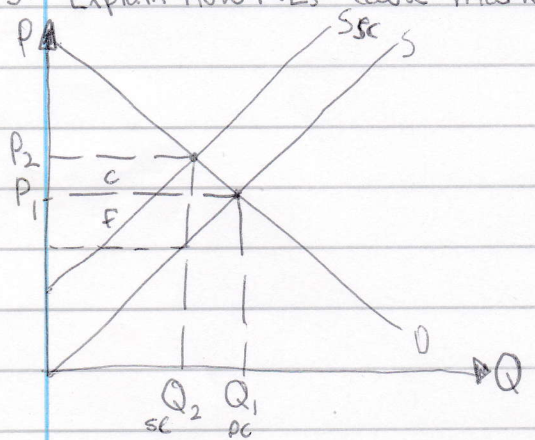
1. Market Failure – where the free market mechanism fails to achieve economic efficiency.

- Resources are not being used in the best way and inefficient use of scarce resources.

2. What is meant by negative externalities?

Social Cost of an activity > Private Cost of an activity.

3. Explain how NEs cause market failure.

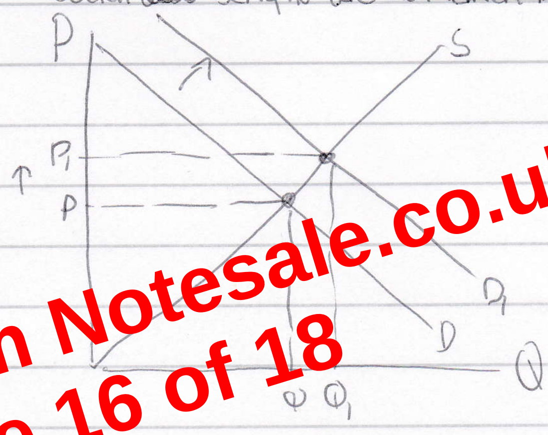


∴ overproduction

4. Positive Externalities

SB > PB

Social ~~cost~~ benefits are not taken into account.



∴ underproduction and underconsumption
too few scarce resources are being allocated

Explain what is Information Failure and its implications (6).

Information Failure is a lack of information resulting in consumers and producers making decisions that do not maximise welfare. One feature of information failure is asymmetrical information. This occurs where information is NOT shared equally between two parties. Therefore, consumers and podruces do not make rational decisions about a product. Therefore our welfare isn't maximised as we have missing or inaccurate information. This causes ~~the misallocation of~~ inefficient allocation of resources and therefore market failure.