However, it is not easy to determine the effectiveness of the subsidy. For example, producers may not use all of the subsidy for cutting their costs of production. As a result, the quantity would have only increased by a small amount. Therefore, this would not have corrected the problem of market failure. Moreover, firms can't just rely on subsidies to lower prices. In other words, you can't guarantee that having a subsidy will lower prices.

Also it depends on the price elasticity of demand for pu'er tea. For example, if the good is inelastic, the demand quantity will increase by only a small amount and therefore won't increase consumption to its optimum level. Therefore, this won't solve the problem of under consumption and market failure. As a result, there will be a misallocation of resources.

The size of the subsidy is another important factor. For example, if a small amount of the subsidy is given to the firm, their costs of production won't increase by a large amount. As a consequence, the price would not fall by much and the quantity would not increase by a lot. Therefore consumption will not increase by much leading to market failure.

In conclusion, a subsidy may increase consumption which would enable low-income earners to consume pu'er tea. Low income earners are usually more likely to get ill, and therefore if consumption increases it will reduce likelihood of these diseases listed above. However, some groups e.g. rich middle classes and tea drinkers worldwide could afford pu'er tea, which would aid consumption.

V good analysis

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