

Practice with Taxes and Subsidies Answers

Figure 1: Answer 1.a

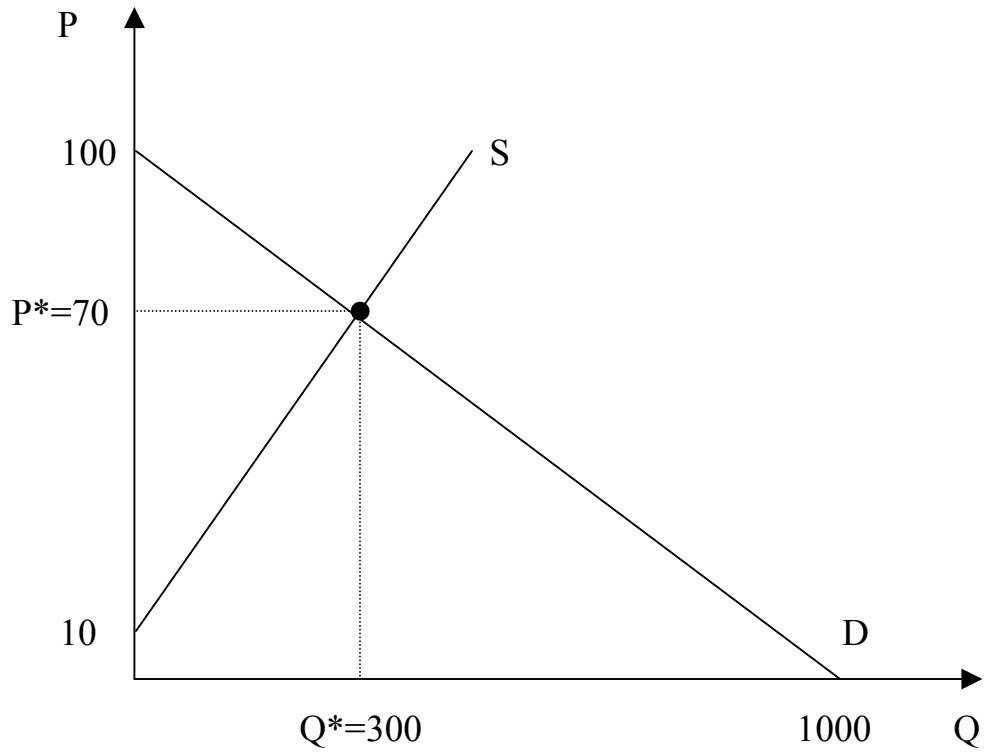


Figure 2: Answer 1.b.

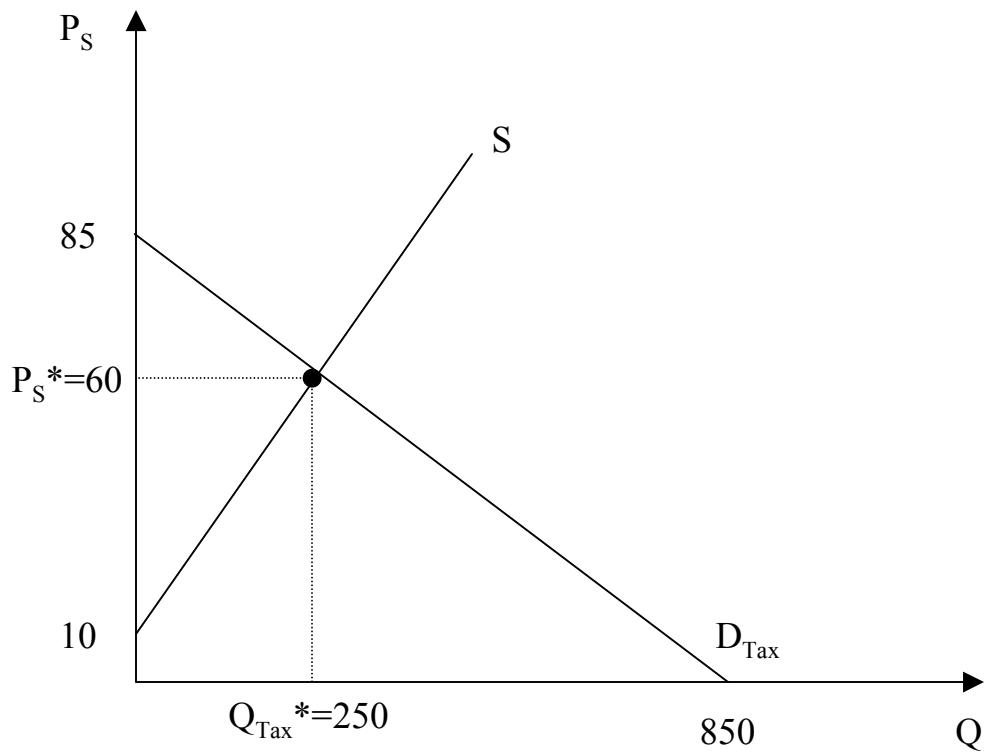


Figure 3: Answer 1.c.

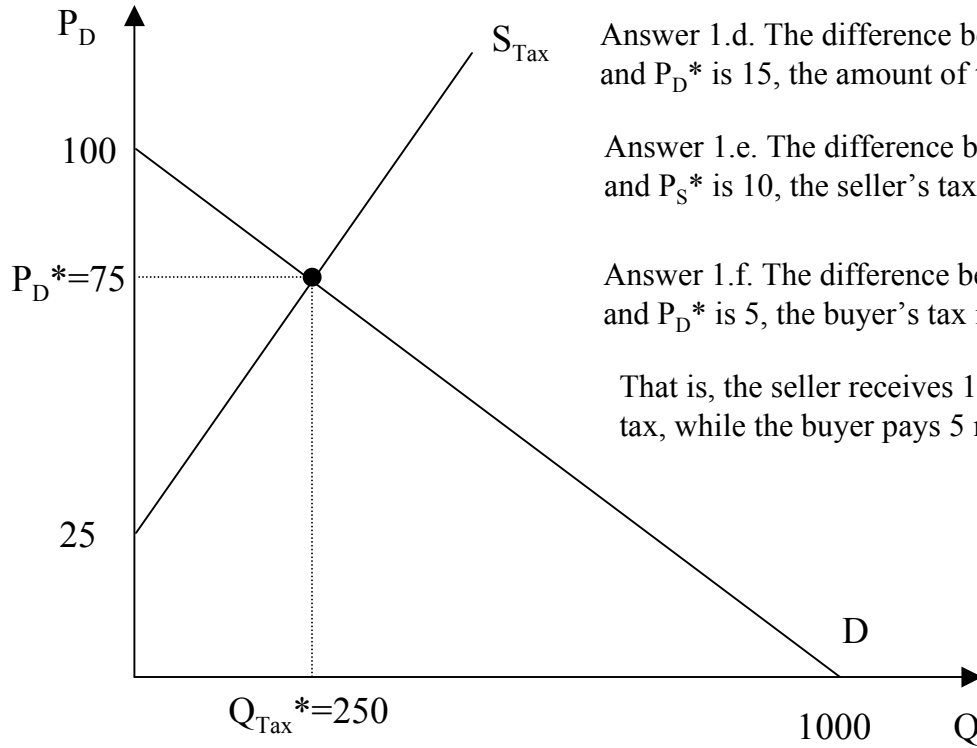


Figure 4: Answer 2.a.

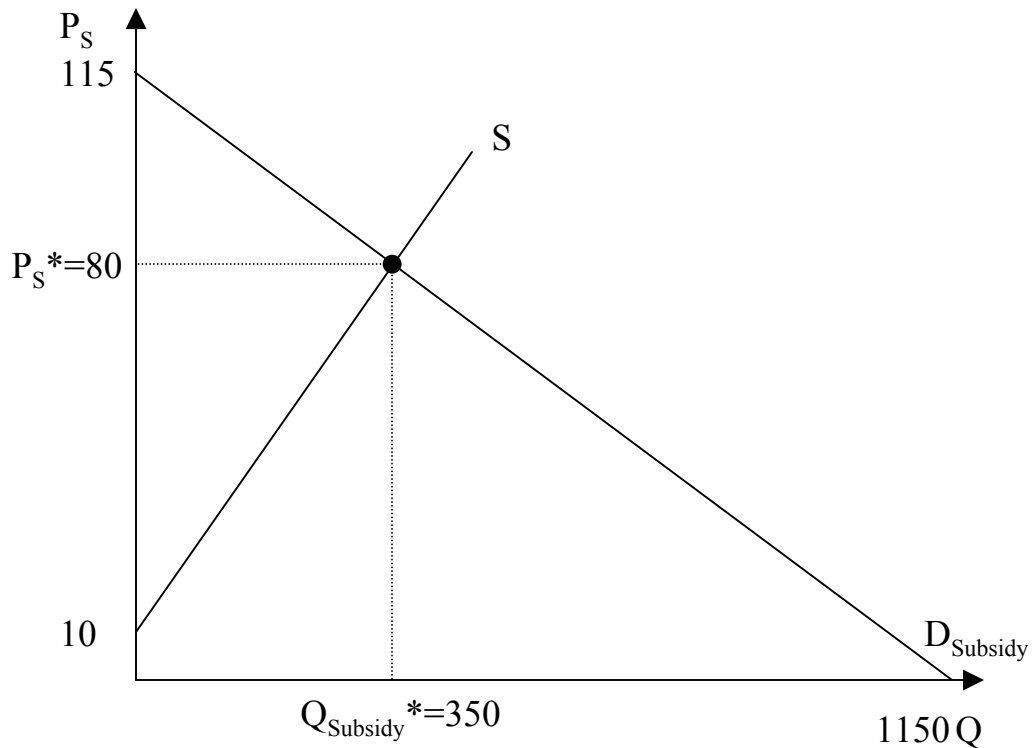
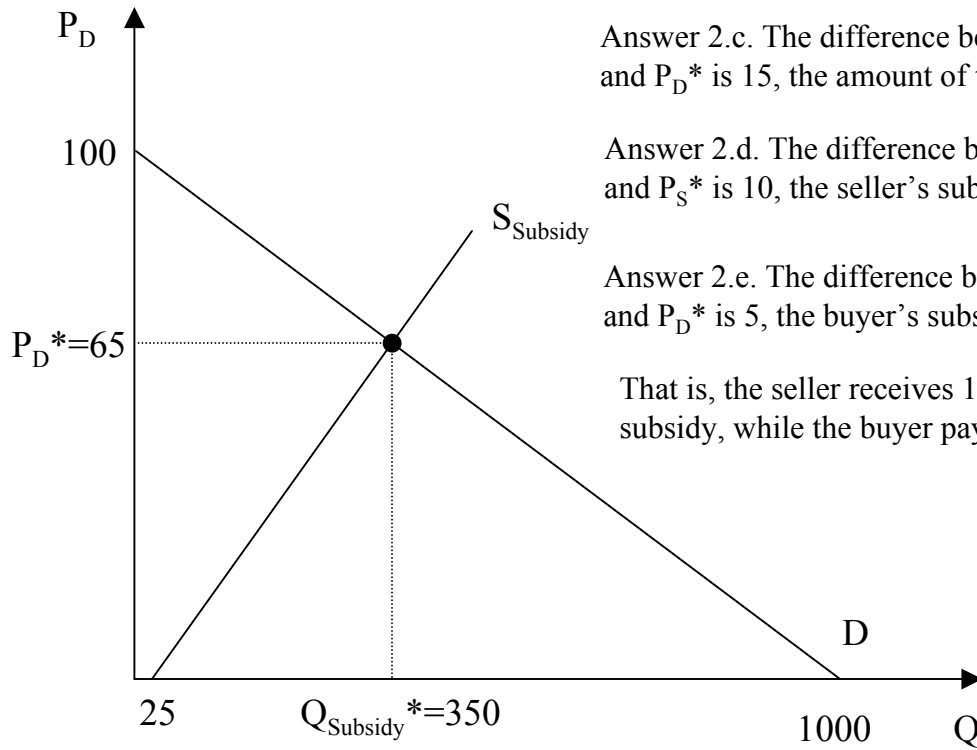


Figure 5: Answer 2.b.



Answer 2.c. The difference between P_S^* and P_D^* is 15, the amount of the subsidy.

Answer 2.d. The difference between P^* and P_S^* is 10, the seller's subsidy incidence.

Answer 2.e. The difference between P^* and P_D^* is 5, the buyer's subsidy incidence.

That is, the seller receives 10 more with the subsidy, while the buyer pays 5 less.