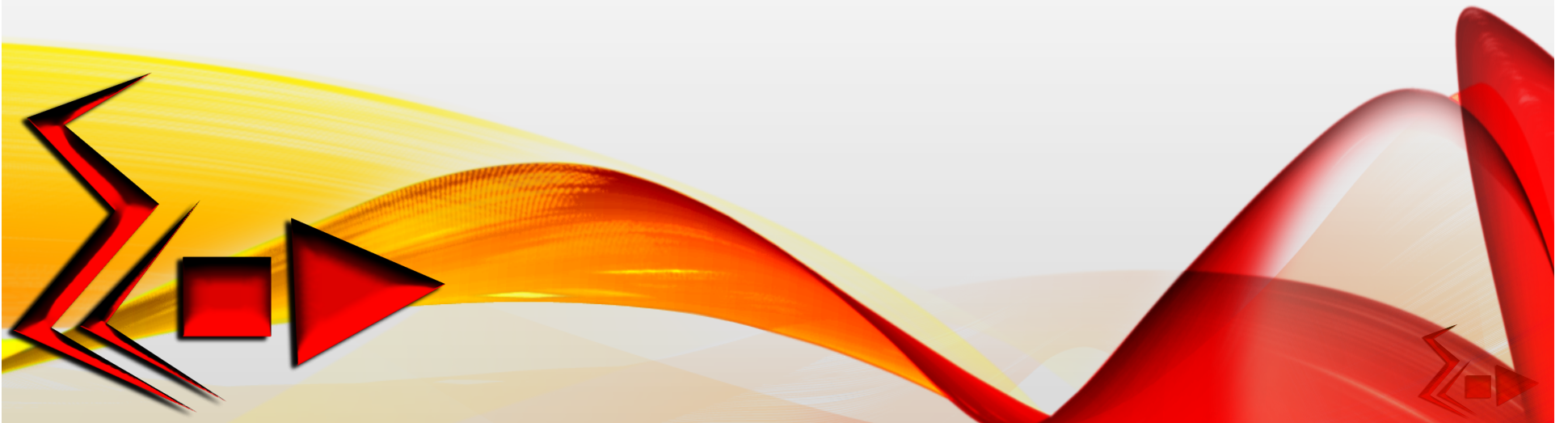




# PRODUCTION SUBSIDY

Subsidy and Quotas





# PRODUCTION SUBSIDIES AND QUOTAS

- Intervention in markets for farm products takes two main forms:
- A **production quota** is an upper limit to the quantity of a good that may be produced during a specified period.
- A **subsidy** is a payment made by the government to a producer.



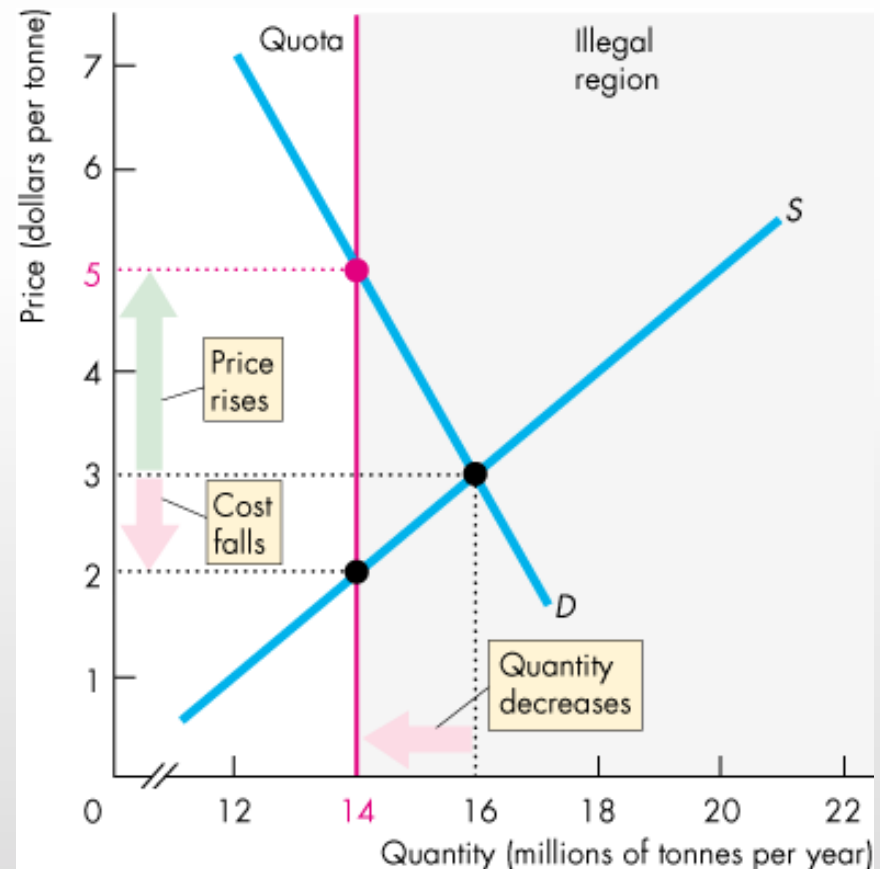
# PRODUCTION SUBSIDIES AND QUOTAS

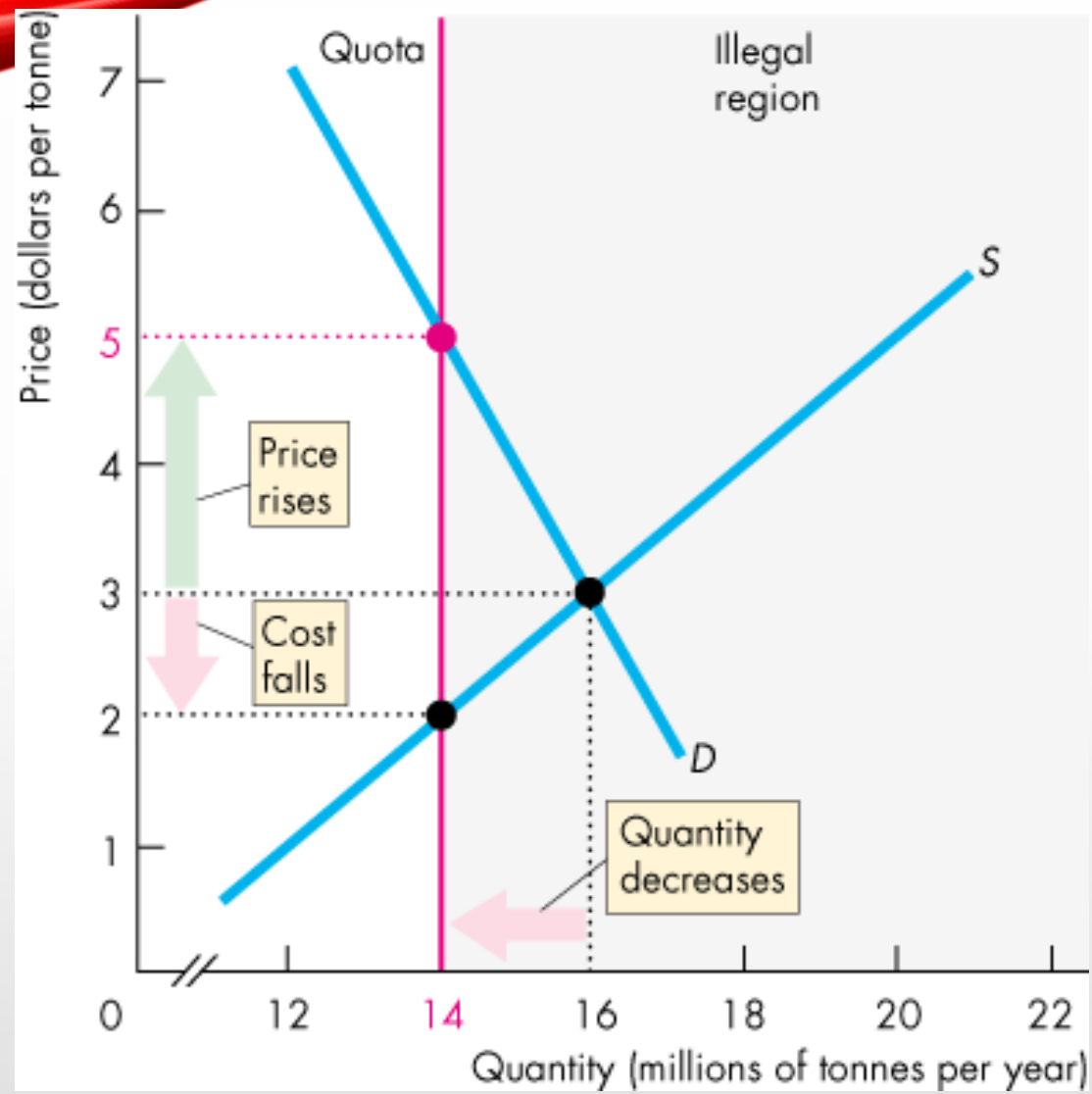
- Production Quotas

With no quota, the price is \$3 a tonne and 16 million tonnes a year are produced.

With the production quota of 14 million tonnes a year, quantity decreases to 14 million tonnes a year.

The market price rises to \$5 a tonne and marginal cost falls to \$2 a tonne.



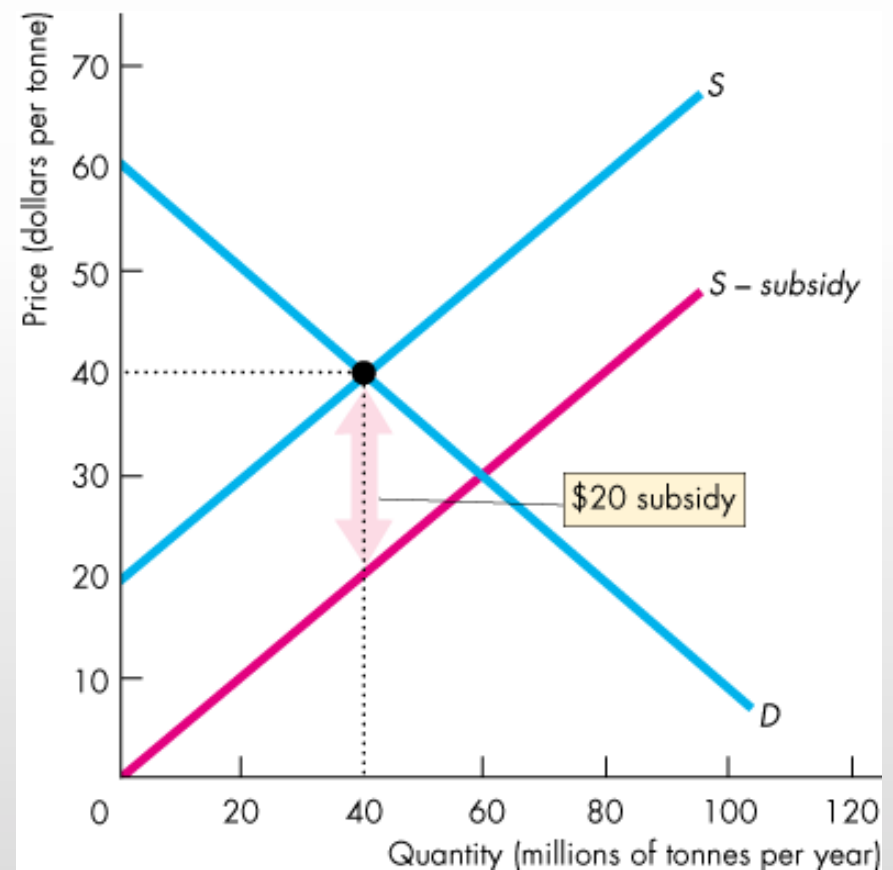



# PRODUCTION SUBSIDIES AND QUOTAS

- Subsidies

subsidy of \$20 a tonne

SS:  $S - \text{subsidy}$ .



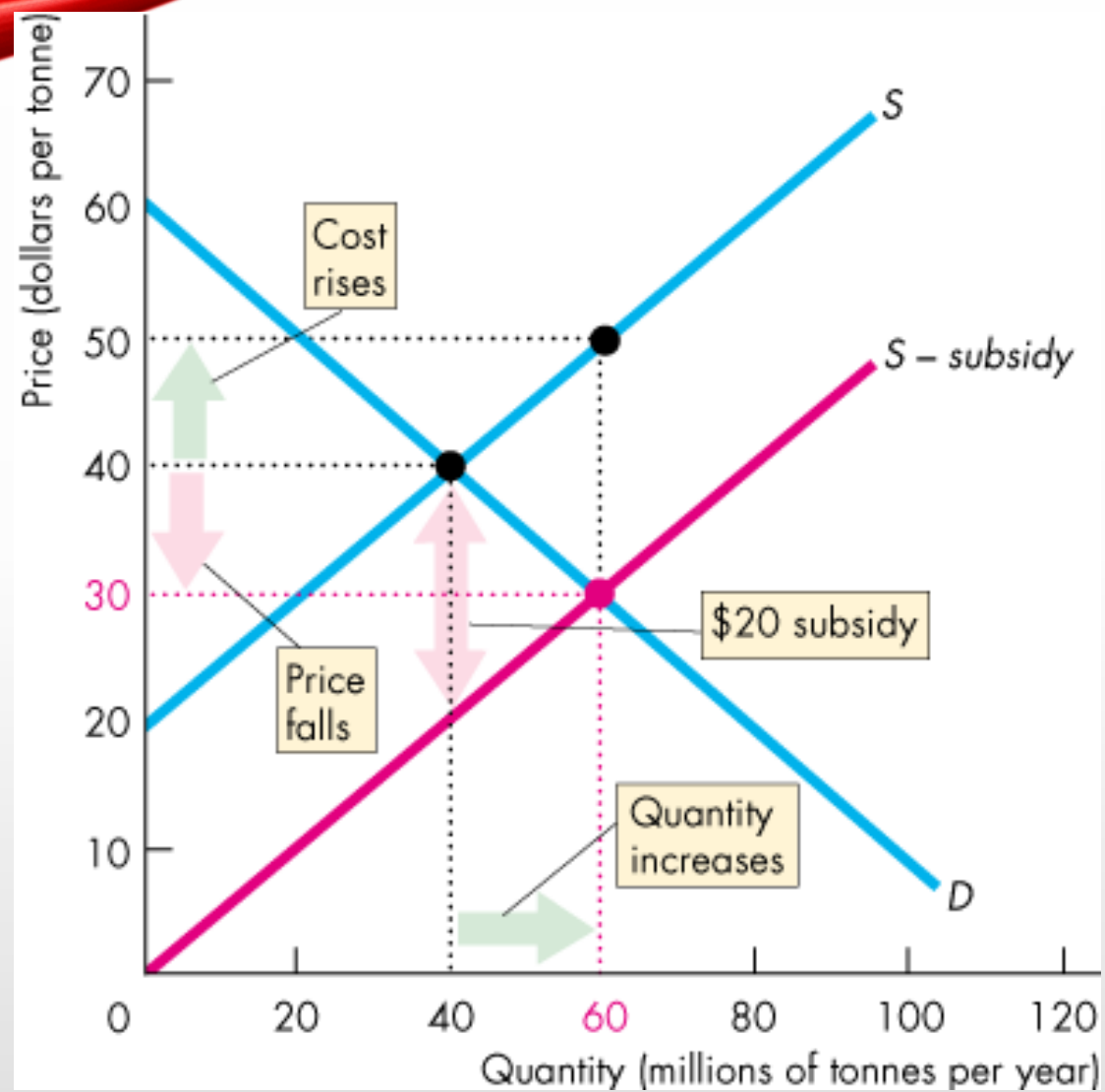


When a subsidy is paid in the market for potatoes, the equilibrium quantity \_\_\_\_\_ and the price \_\_\_\_\_  
Marginal social cost \_\_\_\_\_ marginal social benefit.

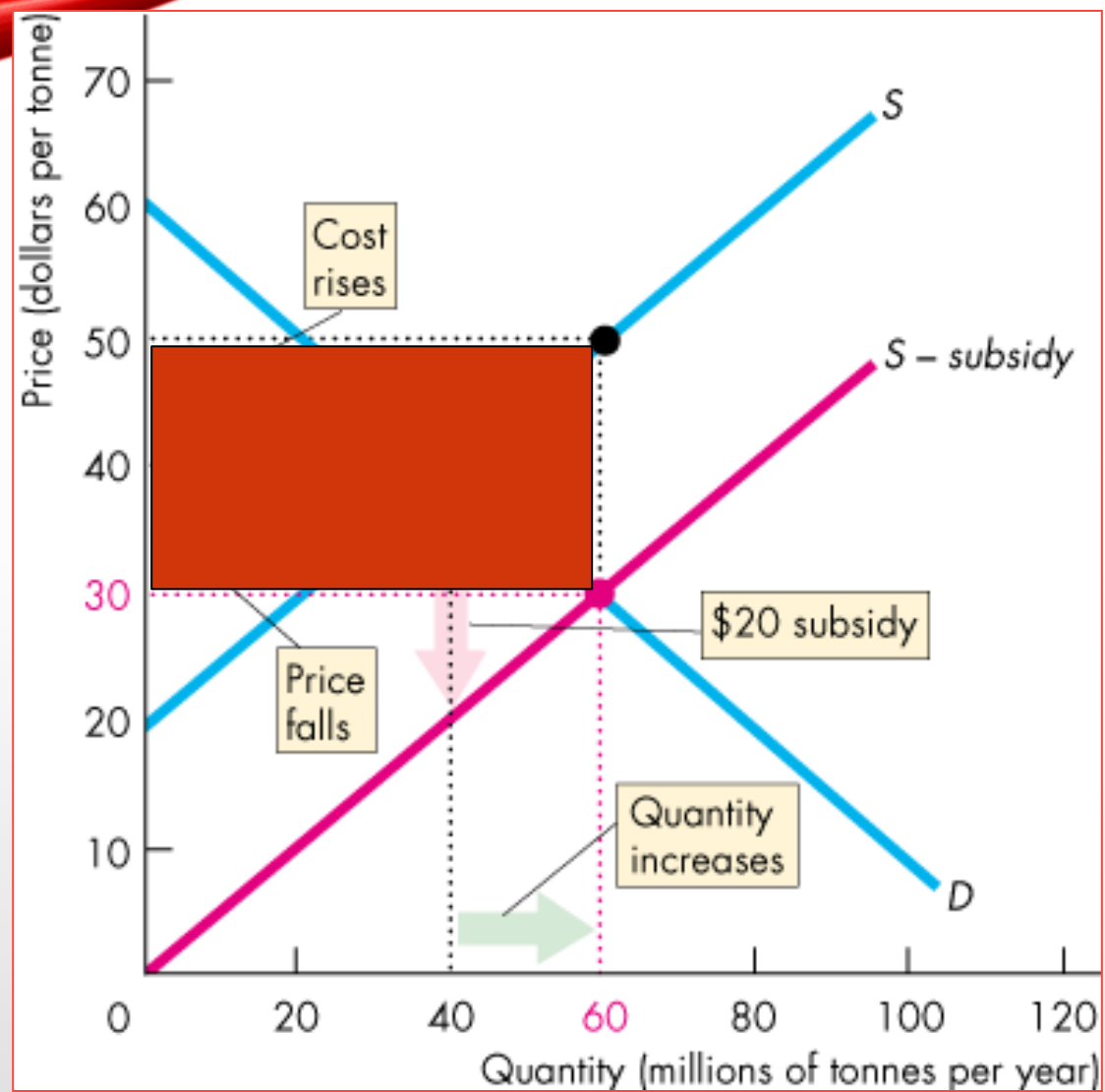
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- ☐ A. decreases; rises; is less than
- ☐ B. increases; falls; exceeds
- ☐ C. increases; rises; is less than
- ☐ D. decreases; falls; exceeds










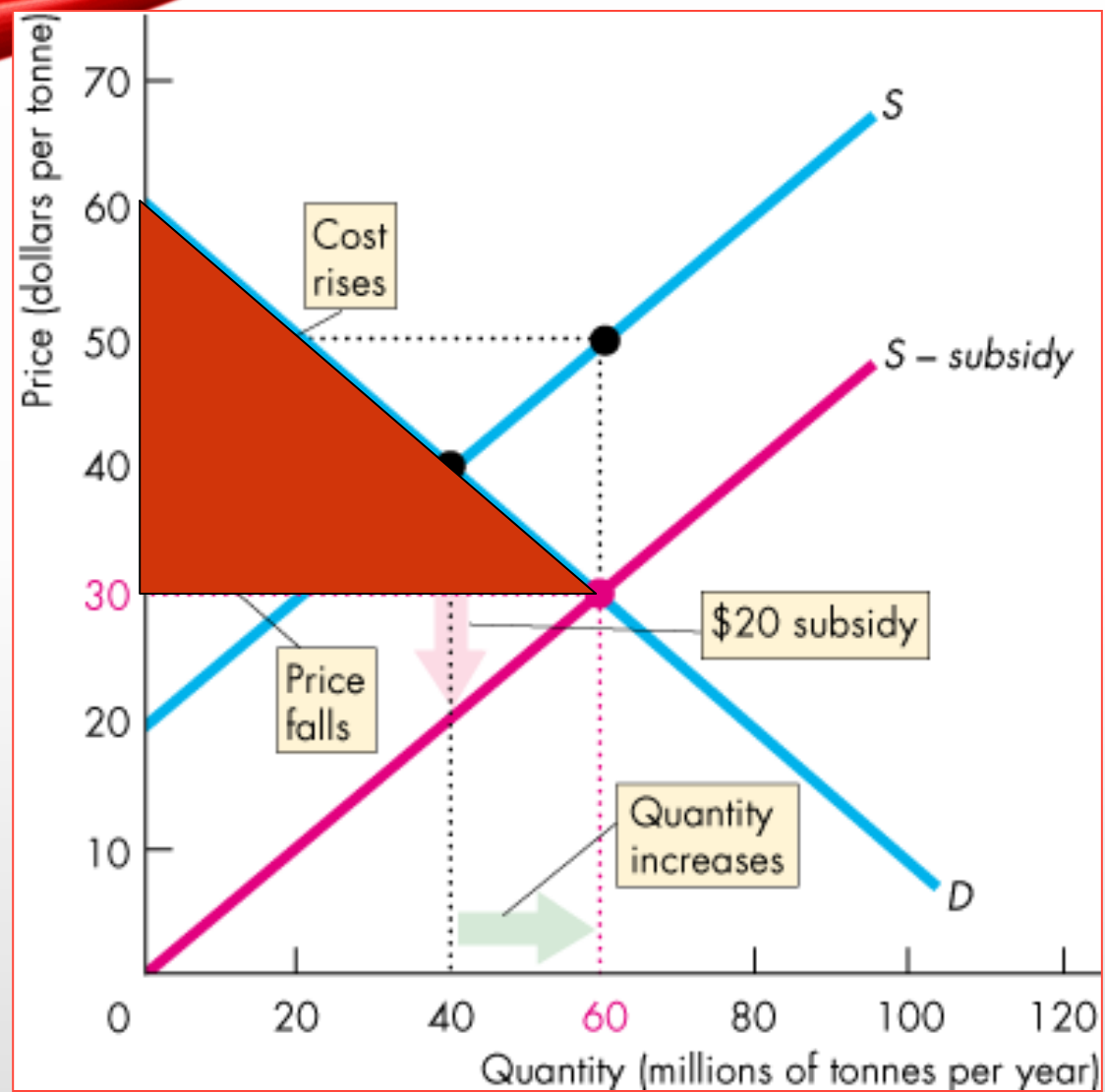


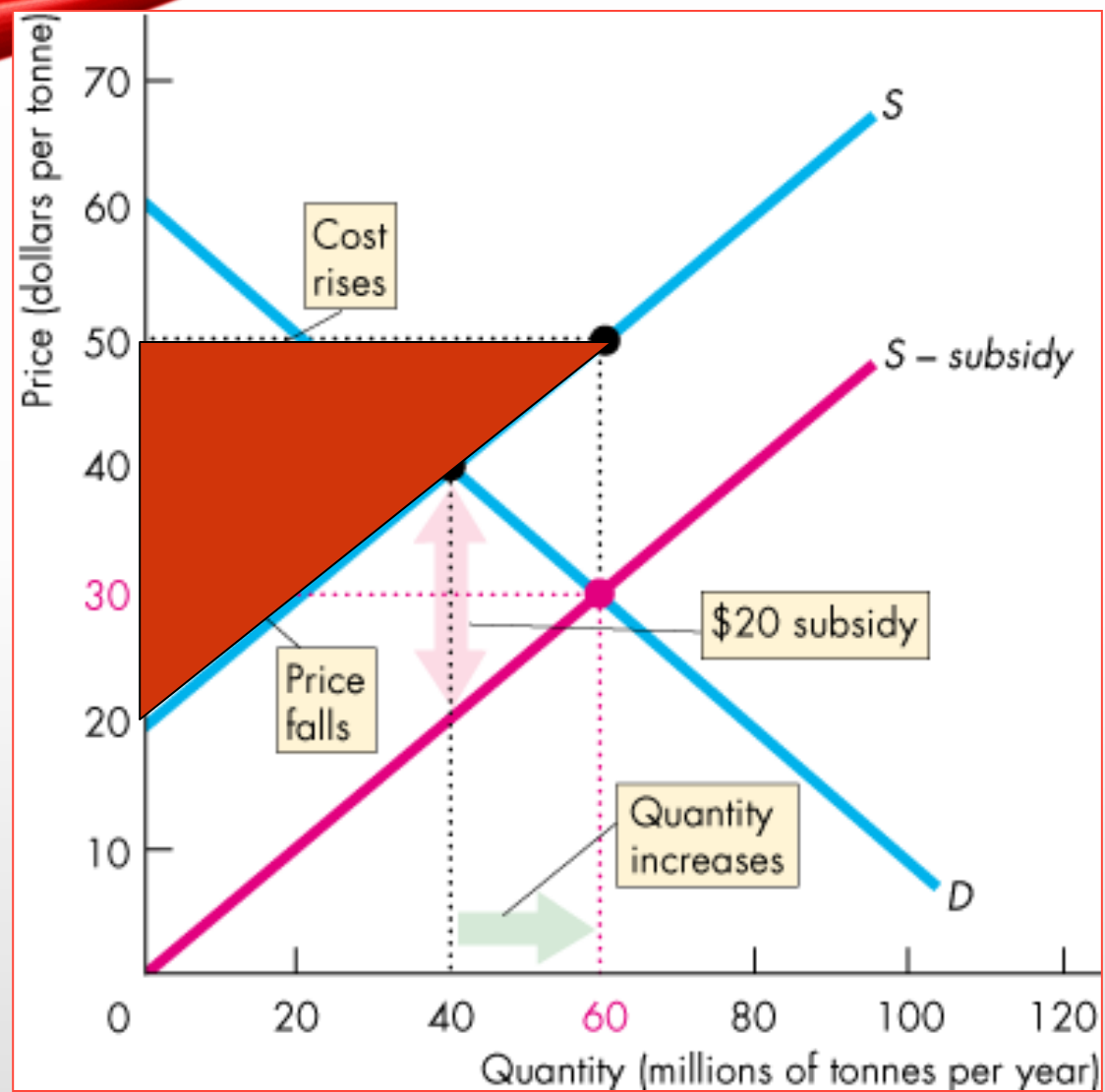


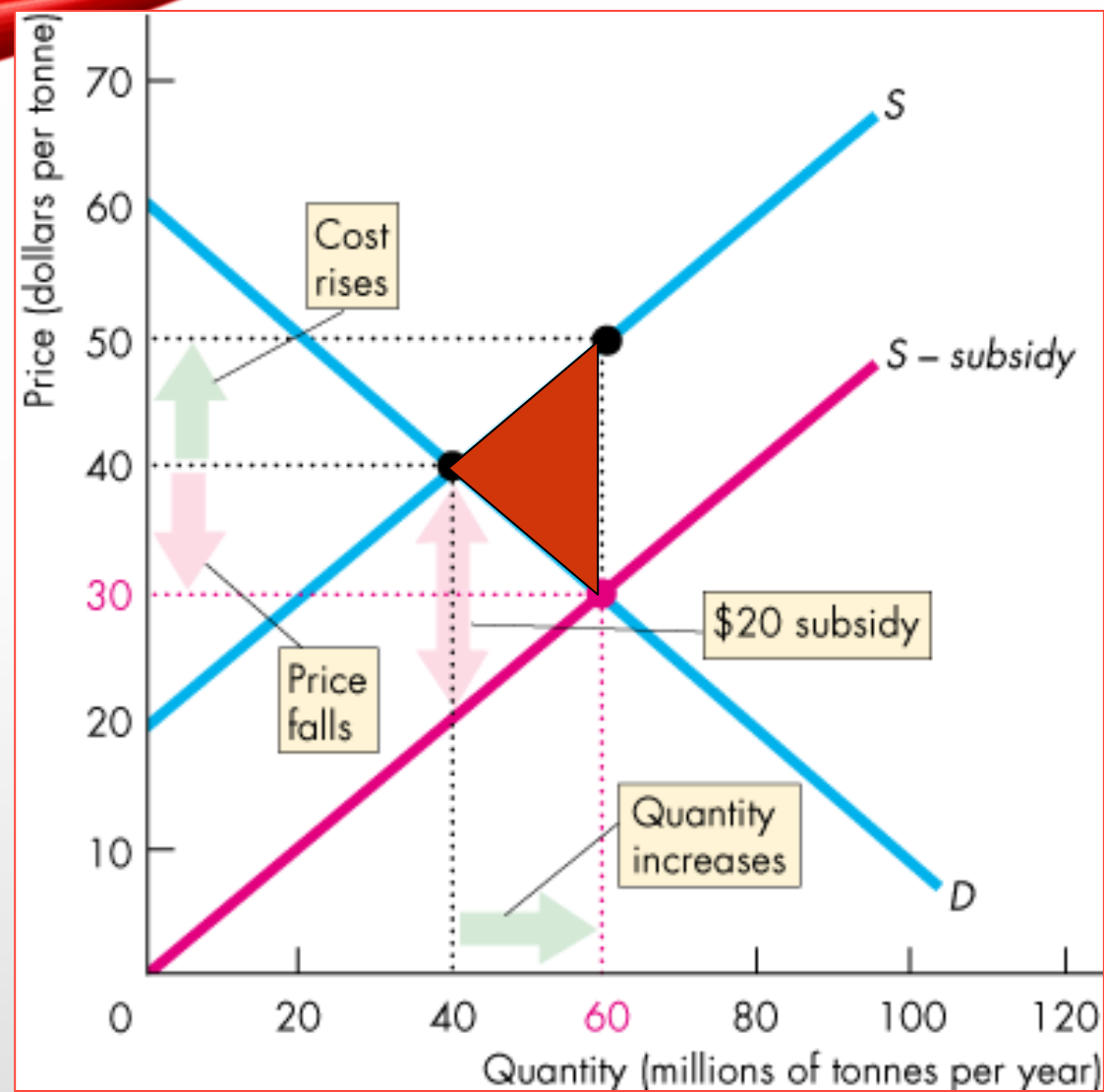
A subsidy

- ☐ A. decreases total revenue received by farmers.
- ☐ B. raises the price received by farmers.
- ☐ C. decreases the quantity supplied in the market.
- ☐ D. prevents the deadweight loss from underproduction.
- ☐ E. lowers the price received by farmers.












Table 6.4.1

Price (dollars per box)	Quantity Demanded(boxes per week)	Quantity Supplied(boxes per week)
1.00	3,500	500
1.10	3,250	1,000
1.20	3,000	1,500
1.30	2,750	2,000
1.40	2,500	2,500
1.50	2,250	3,000

6.4-11 (tb)

