Subsidies and Sales Tax

Tax is an amount collected by the government from consumers and producers so the government.

Taxes are paid can pay so the government can pay for infrastructure, encourage merit goods, discourage demerit goods, etc.

-Direct tax is paid straight to the government by the party concerned (individual income tax, PAYE).

-Indirect tax is collected by a third party and then paid to the government (GST)

Taxes make goods less affordable and less profitable. Tax adds to cost- add to previous costs.

Subsidy is a payment made by the government to producers.

Subsidies may be paid to reduce the price of the good in order to increase consumption or to ensure that producers receive an "acceptable" price for their goods.

Subsidies make goods more affordable and profitable. Subsidy adds to revenue- subtract from previous costs.

Tariff is a tax on imported goods.

This makes imports more expensive and less competitive against local goods.

Tariffs increase a producers cost of production.

Changes in Equilibrium

If the equilibrium price of a good decreases due to a non-price factor eg. the bikini market in winter, flow-on effects will occur:

Changes in Equilibrium (cont)

-producers will lower price to clear excess stock	-this price drop causes quantity supplied to decrease and quantity demanded to increase. equilibrium decreases QE-->Q1.

The effect on the producer revenue depends on the size of the changes in price and quantity.

The decrease in price means producers earn less from selling each unit, however they are selling more units.

If the price change in proportionally bigger then revenue decreases.

If the quantity increase in proportionally bigger then revenue increases.

____ has become *more/less* affordable as the price has increased while incomes are unchanged.

Market Equilibrium

Supply	the sum of all individual consumers' demand at each price
Demand	the sum of all individual producers' supply at each price
Market Equilibrium	relates to the price and quantity at which market demand and market supply are equal.

Maximum and Minimum Price

-Government may decide to set a **maximum price** on a good (price ceiling) usually to ensure a good remains affordable for consumers.

This means producers cannot legally charge more than the maximum price for this good.

For example, public transport may have a price maximum set so it is accessible for everyone.

-Government may decide to set a **minimum price** on a good (price floor) to reduce consumption of a good.

This means producers cannot legally charge less than the minimum price for this good.

For example, cigarettes may have a price minimum set to reduce the number of smokers by making smoking very expensive.

When referring the changed values proceeding a price max/min, include how much consumer spending/producer revenue has increased/decreased by.