

## Answer on question #60224-Economics - Microeconomics

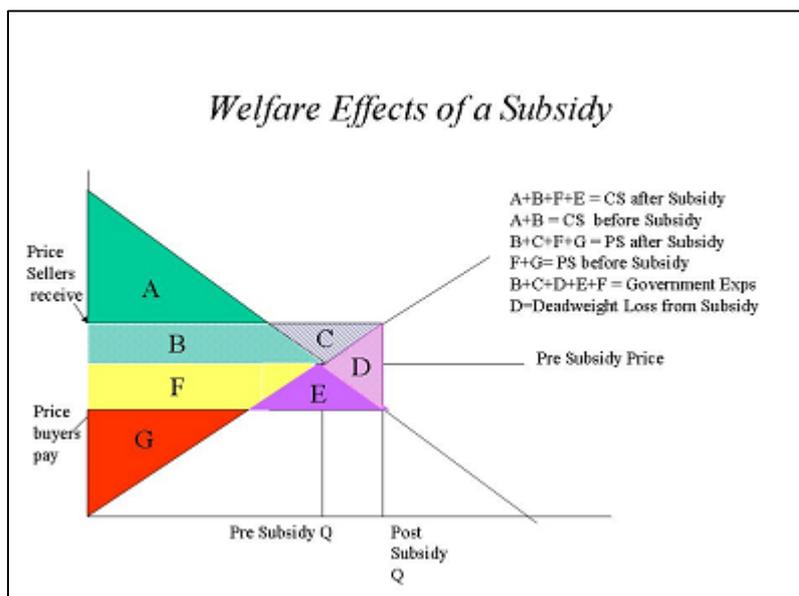
What is the welfare impact of a subsidy policy?

Select one

- a. Producer surplus increases, consumer surplus declines, and total welfare declines.
- b. Producer and consumer surplus increase, and these gains are larger than the government cost.
- c. Producer and consumer surplus increase, and these gains are smaller than the government cost.
- d. Producer surplus increases, consumer surplus declines, and total welfare increases due to the subsidy program.

### Solution

The welfare impact of a subsidy policy is producer and consumer surplus increase. These gains are smaller than the government cost.



The subsidy encourages consumption when the consumer doesn't value the item as much as it cost to produce. The subsidy doesn't create the economic value it creates deadweight loss. So, the result of subsidy will be loss, because the subsidy is inefficient.

### Answer

The true answer is c.