HW#11, Due May 6, 2021 Analyze the case the firm receives subsidy for the following two different cases to find out how the firm's quantity and profit change.

a) The government gives a lump sum subsidy of 20,000 bahts to each firm.

b) Suppose that the firm was producing 1,000 units and the government gives a subsidy of 20 bahts/unit so the total subsidy is also 20,000 bahts if the firm does not change its production of 1,000 units. Do you think, to maximize its profit with the subsidy of 20 bahts/unit, the firm will increase/decrease its production from 1,000 units? Does the firm receive higher profit? Does the firm receive more/less subsidy than 20,000 bahts?

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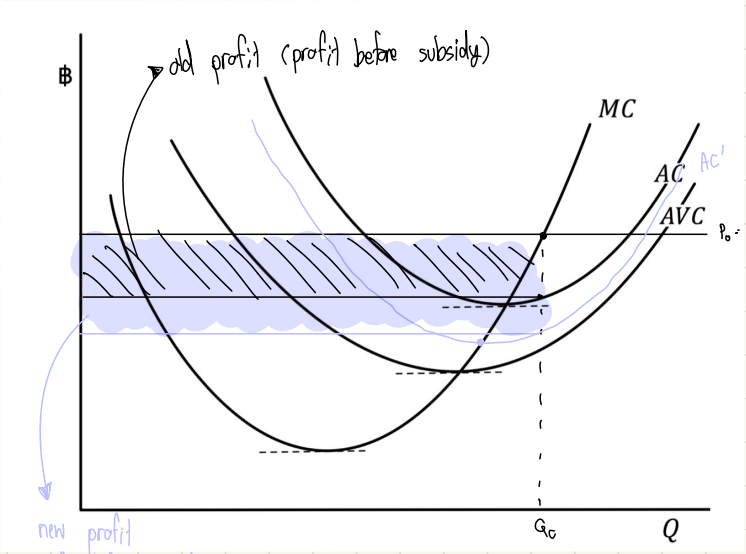
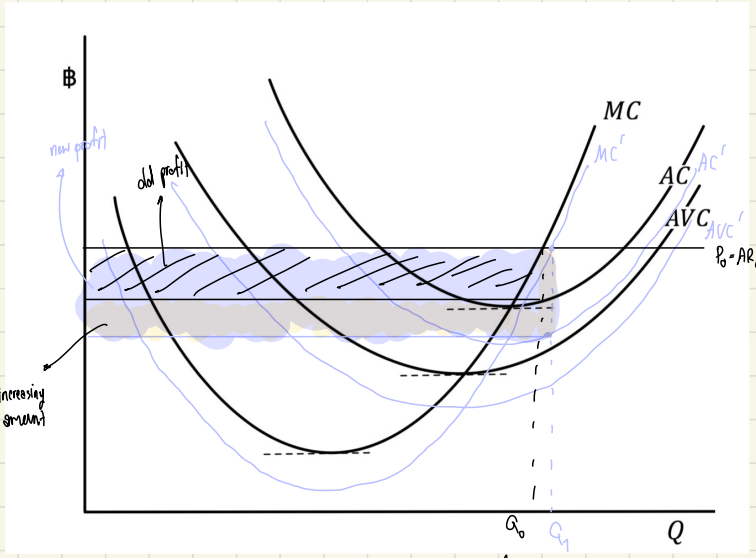
a) The government gives a lump sum subsidy of 20,000 bahts to each firm.

lump sum subsidy 20,000 baht = decrease in total fix cost (TFC')



∴ firm will get more profit when producing the same quantity by 20,000 Baht

b) Suppose that the firm was producing 1,000 units and the government gives a subsidy of 20 bahts/unit so the total subsidy is also 20,000 bahts if the firm does not change its production of 1,000 units. Do you think, to maximize its profit with the subsidy of 20 bahts/unit, the firm will increase/decrease its production from 1,000 units? Does the firm receive higher profit? Does the firm receive more/less subsidy than 20,000 bahts?



= 1,000

subsidy 20 baht / unit

= decrease in TVC

when TVC ↓

to maximize the profit they can produce more ▽ / higher ▽

equilibrium condition

$MR_0 = MC'$

slope of MR < slope of MC'

the firm will get more than the subsidy because they can produce higher ▽