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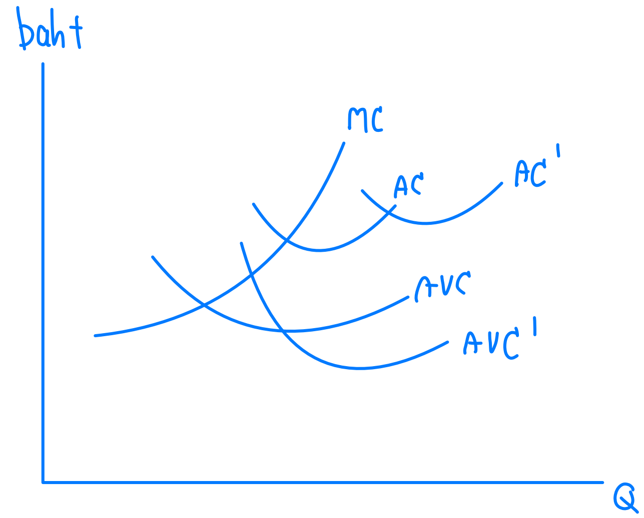
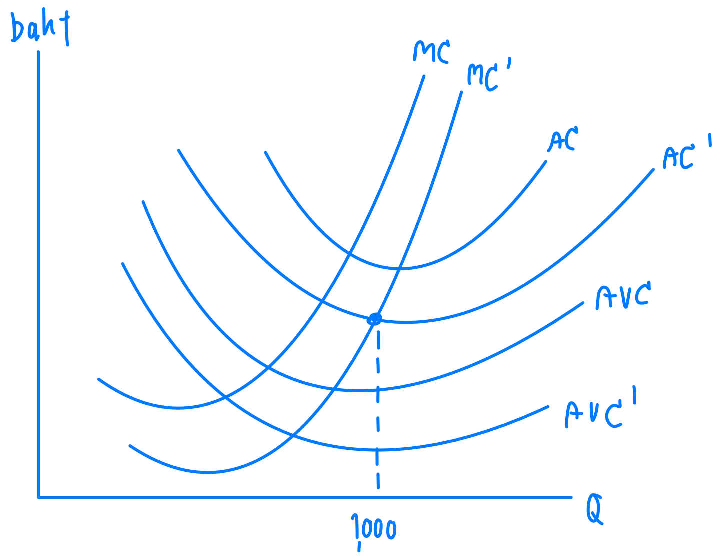
HW#11, Due May 6, 2021 Analyze the case the firm receives subsidy for the following two different cases to find out how the firm's quantity and profit change.
a) The government gives a lump sum subsidy of 20,000 bahts to each firm.
b) Suppose that the firm was producing 1,000 units and the government 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?

a.)



subsidy of 20,000 baht to firm causes supply to shift right (MC = AVC) to (MC' = AVC')

b.)



If the firm produces more than 1,000 units, there will be more profit to the firm since the firm will receive the subsidy for each unit to produce and will gain the profit based on the quantity of the production. Compared to the previous case where goverment gives subsidy 20,000 baht to firms, it just a cash of 20,000 baht to firm. On the other hand, subsidy 20 baht/unit can make money more than 20,000 baht.