

1.d GOVERNMENT MEASURES - continued (neoclassical economics)

After minimum price and maximum price, we turn to taxes and subsidies as government measures.

We first look at the mathematical ‘impact’ of both government measures on the market equilibrium.

Then we discuss the wealth impact, both mathematically and graphically.

Assumption:

We look at both taxes and subsidies from the supplier's point of view. The latter pays the tax/receives the subsidy and partially passes it on to the consumer.

UK LEVIES TAX ON PLASTIC PACKAGING

The United Kingdom (UK) will levy a tax on plastic packaging containing less than 30% recycled plastic from January 2025. With this so-called Plastic Packaging Tax (PPT), the UK is ahead of EU plans.

Tax combats negative externalities.

Example:

$$Q_d = 80 - P$$

$$Q_s = 3P + 20$$

Tax of €10

1) Calculate market equilibrium



2) Calculate tax

- impact on which curve?

- new curve?



**3) Calculate new
market equilibrium**



4) What happened to P_e , Q_e ?



**5) What % of the tax is passed on to the
consumer?**

What % is borne by the supplier?



SUBSIDIES

NAPPY MANUFACTURERS RECEIVE SUBSIDIES FOR PRODUCTION OF WASHABLE NAPPIES

The waste mountain needs to be smaller, the Dutch government believes. And tackling nappy waste could be a step in the right direction. Therefore, since 2024, the Netherlands pays a subsidy to nappy manufacturers who commit to producing washable nappies. It is more sustainable and more economical for the wallet, as you don't have to buy new ones all the time.

Subsidy reinforces positive externalities.

Example:

$$Q_d = 120 - P$$

$$Q_s = 2P$$

Subsidy of €20

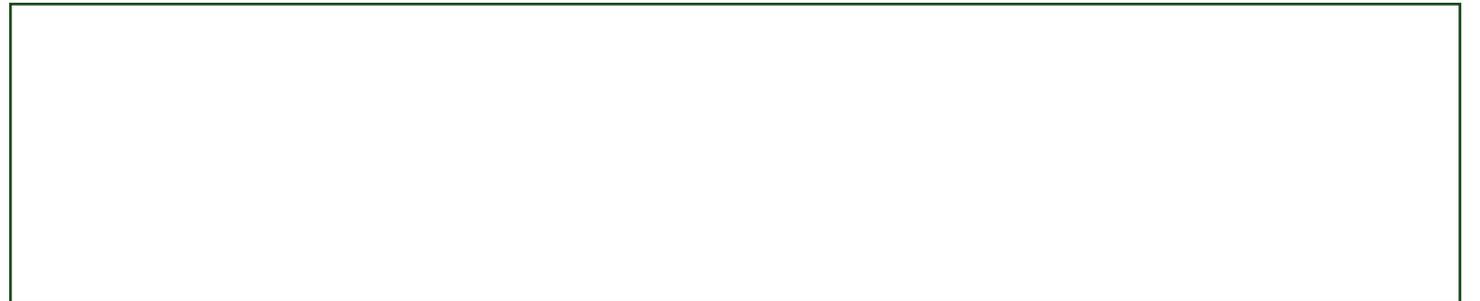
1) Calculate market equilibrium



2) Calculate subsidy

- impact on which curve?

- new curve?



**3) Calculate new
market equilibrium**



4) What happened to P_e , Q_e ?



**5) What % of the subsidy is passed on to the
consumer?**

What % is kept by the supplier?

