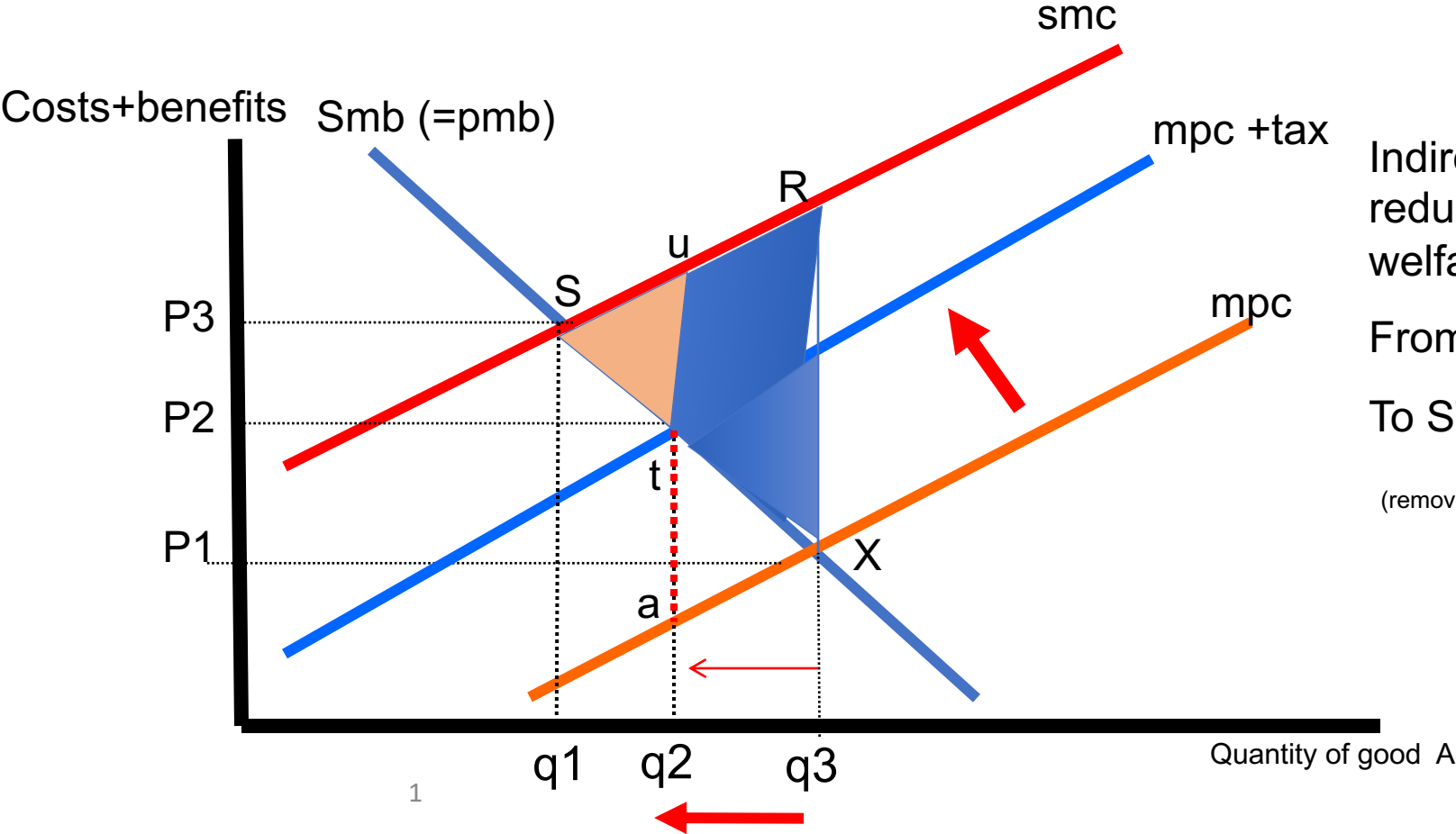


A

Task A: Indirect Tax-solving over production

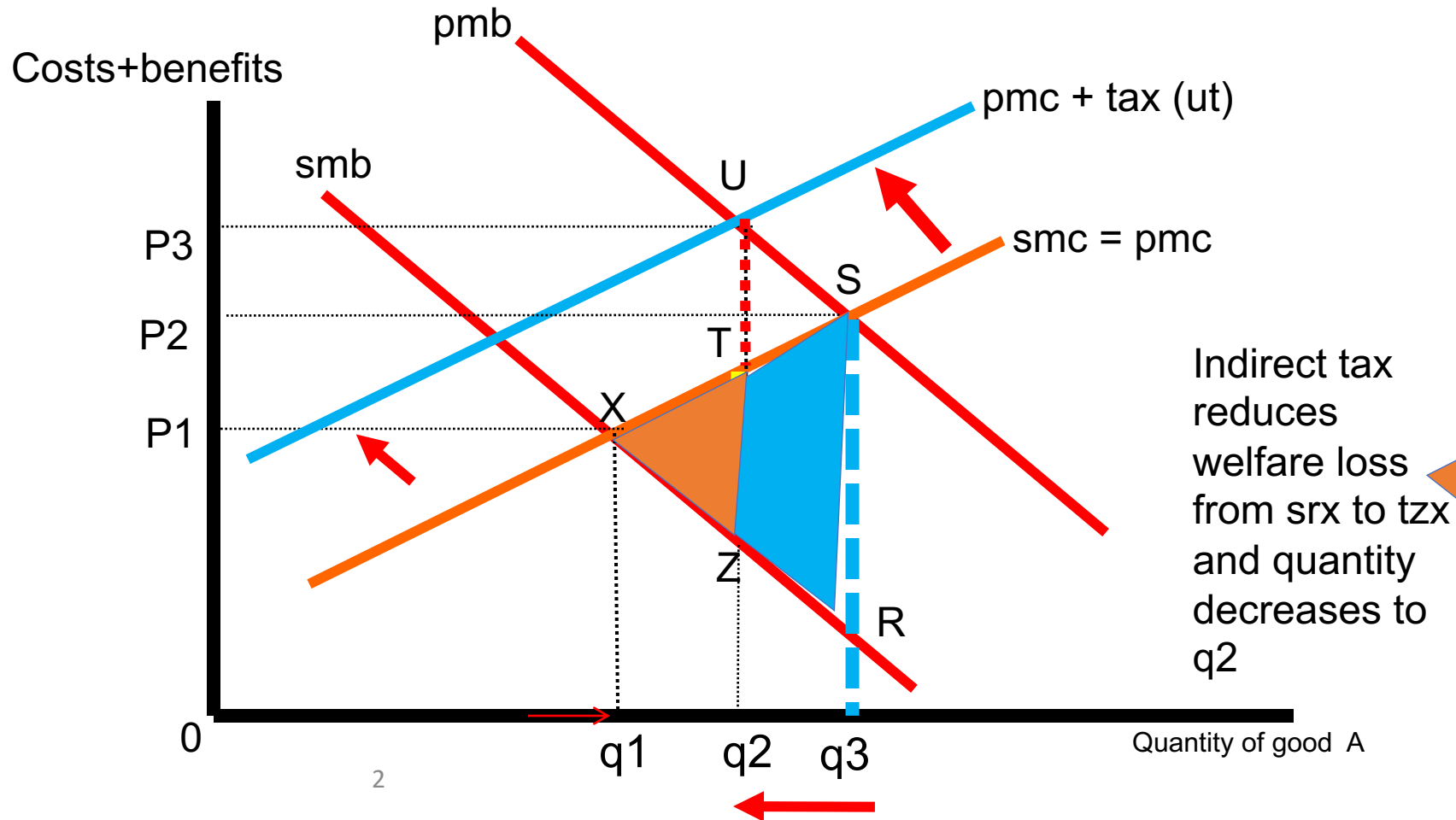
Analysis commences at S. Over production occurs at x and an indirect tax shifts supply to t and a lower quantity is produced at Q2. Welfare loss is reduced to STU.



Task B: Indirect Tax-solving over consumption

B

Analysis commences at x. Over consumption occurs at s and an indirect tax shifts supply to U and a lower quantity is consumed at Q2. Welfare loss is reduced to TXZ.



C

Analysis commences at X where $MSB = MSC$. Under production occurs at S and subsidy shifts supply to t and a higher quantity is produced at Q2. Potential welfare loss is reduced to TXZ.

Task C: Subsidy solving under production

Costs+benefits

