

Explain why the government might choose to grant a subsidy to producers of wheat....



Explain why the government might choose to grant a subsidy to producers of wheat. A subsidy is an amount of money paid by the government to a firm.

There are many reasons why the government might choose to subsidize producers of wheat. In many countries, wheat is considered to be an essential good. The government would therefore hope for consumption of wheat to increase, which can be achieved through lower prices. If a subsidy is granted to producers of wheat, their costs of production will be lowered.

Producers can choose to pass this on to consumers by lowering their prices, thus achieving the government's aim of increasing consumption. [pic]

Without a subsidy, the original equilibrium would be at price P_1 and quantity Q_1 . Following the introduction of a subsidy, the supply line would shift outwards, because it will have become cheaper for firms to produce their goods. This is represented by the change in equilibrium to price P_2 and quantity Q_2 , as price will decrease and quantity will increase.

Another reason why the government might choose to grant subsidies is so that they can guarantee a supply of products that they believe are necessary for the economy. In this case, wheat can be regarded as a basic food supply, as it is used in the production of other goods, such as bread and noodles; therefore, the government might grant a subsidy to producers of wheat, in order to make sure of a constant supply. By enabling producers to lower their costs of production, the government allows them to earn more profit, and therefore provides an incentive for the producers to increase supply.

The wheat production industry might also contain a lot of employment, in the form of farmers, etc. If the industry were to collapse, there would be many

economic and social problems. As a result, the government might choose to grant a subsidy to producers of wheat in order to support the industry. The government might also choose to grant a subsidy to producers of wheat in order to make them more competitive. By providing a subsidy, the government allows producers to achieve lower costs of production.

Producers can then in turn lower their prices, and therefore hold their own more easily against foreign competitors. In conclusion, the government might choose to grant a subsidy to producers of wheat for several reasons. Because wheat is generally regarded as a necessity, the government will want to encourage its consumption by supporting its producers. This will result in decreased market price, as well as increased market demand.