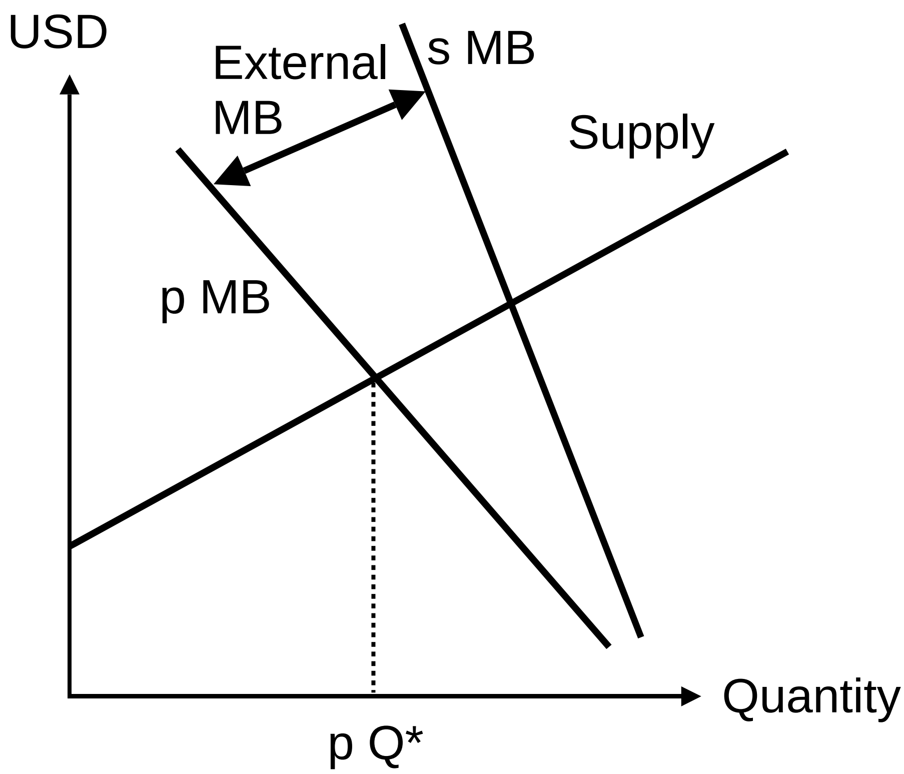
Externality and subsidy (E11)

➪ The following figure shows a market where external benefits (positive externality, for example education) are generated. The quantity supplied by the private market is less than the socially desired quantity. To solve the problem, the government can grant a subsidy. How high must the per unit-subsidy be in order to get the socially desired quantity?

Market with external benefits



MB = Marginal benefit
p = private
s = social
Q* = Optimal quantity

Click to get the answer!