

Subsidies: Everybody Pays! | Worksheet



Matching

Match the definition in Column A with the term in Column B.

Column A

- _____ Price reduction for buyers, funded by government.
- _____ Extra output from one additional worker.
- _____ Helps sellers cut costs or increase supply.
- _____ Government incentive to lower costs or prices.
- _____ Lowers cost for buyers to boost demand.
- _____ Direct money to producers for making goods.

Column B

- a. Subsidy
- b. Payment Subsidy
- c. Discount Subsidy
- d. Consumer-side Subsidy
- e. Producer-side Subsidy
- f. Marginal Product of Labor (MPL)

Multiple Choice

1. **What is the main purpose of a subsidy?**
 - a. To eliminate all costs for producers
 - b. To encourage certain behaviors
 - c. To replace supply and demand in the market
 - d. To guarantee every product will sell
2. **Which of the following is an example of a consumer-side subsidy?**
 - a. Farmers are paid for each bushel of corn.
 - b. A car company gets \$1,000 per electric vehicle.
 - c. Shoppers receive 20% off groceries with a flu shot.
 - d. A lemonade stand hires another worker to sell more.
3. **What trade-off often comes with government subsidies?**
 - a. Higher taxes on families and businesses
 - b. Government debt that leads to inflation
 - c. Market distortions that waste resources
 - d. All of the above
4. **What problem can subsidies cause when companies produce more than consumers actually want?**
 - a. The companies make a higher profit, but lack resources
 - b. The market gets an infusion of consumers, but eats up supply
 - c. The consumers gain additional choices, but lose quality
 - d. Resources get wasted on goods that go unsold

Application

Electric vehicles are an example of a heavily subsidized product today. Do some research on EVs or other subsidies and answer the following questions:

- What subsidies are offered (consumer-side or producer-side)?
- What are the benefits the supporters claim the subsidies provide?
- What are the hidden costs or trade-offs?
- Your opinion: How do you feel about this particular subsidy?



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Subsidies: Everybody Pays! | Answer Key

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Answers will vary, but this is an example of what a student might say about EVs:

One big subsidy today is for electric vehicles (EVs). It is a consumer-side subsidy because buyers can get a tax credit worth several thousand dollars when they purchase an EV.

Supporters of this subsidy say it helps more people afford cleaner cars, lowers pollution, and encourages car companies to keep innovating with new technology. They argue this pushes the market in a better direction.

But there are also hidden costs and trade-offs. The government has to make up for the money it gives away through higher taxes or debt, so taxpayers end up paying for it. EV batteries require mining for lithium and cobalt, which can cause pollution and damage the environment. Also, not everyone actually wants EVs, so companies may make more than they can sell.

In my opinion, this subsidy creates more inefficiency and waste than opportunity. If EVs were truly better for consumers and the market, people would buy them without the government having to pay for it.

Guidance for Grading

- ☐ **Identification of a subsidy.** The student correctly identifies a real subsidy program and specifies whether it is consumer-side or producer-side.
- ☐ **Benefits claimed:** The student explains at least one benefit that supporters claim the subsidy provides (e.g., affordability, innovation, protecting industries, helping low-income households, etc.).
- ☐ **Hidden costs or trade-offs:** The student identifies at least one unintended consequence or trade-off (e.g., taxpayer burden, inefficiency/waste, market distortion, environmental or resource consequence).
- ☐ **Opinion/evaluation:** The student provides a personal opinion on whether the subsidy creates more opportunity or more inefficiency/waste, with reasoning that connects to their examples.