

Grade 9 (Economics)

Supply Side Policies

Supply-side policies are government attempts to increase productivity and increase efficiency in the economy. If successful, they will shift aggregate supply (AS) to the right and enable higher economic growth in the long-run. One such measure is to reduce cost of production. The government can do this by granting subsidies

Subsidies

A subsidy is an amount of money given directly to firms by the government to encourage production and consumption. A unit subsidy is a specific sum per unit produced which is given to the producer.

The effect of a specific *per unit subsidy* is to shift the supply curve vertically downwards by the amount of the subsidy. In this case the new supply curve will be parallel to the original. Depending on elasticity of demand, the effect is to reduce price and increase output.

