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Agric. Econ. – Czech

**Severová L., Chromý
J., Sekerka B., Soukup
A.:**

Microeconomic aspects of government subsidies in the agricultural market

Agric. Econ. – Czech, 58 (2012): 542-
548

It is known from the Czech practice that a very actual problem of economic policy is created by the subsidies on the prices of agricultural products. A price subsidy of

agricultural product causes the price to be kept above its equilibrium level. We will use the microeconomic knowledge about the behaviour of average and marginal costs curves in the short-run and long-run. We assume two agricultural firms in a perfect competition market. The agricultural large-scale company reaches a normal profit, but the small family firm has higher costs, therefore it runs at a loss. Using the subsidy can ensure that the prices of agricultural products are set at a level, at which the farmers have appropriate incomes. However, a loss of efficiency can occur because of the subsidy as the surplus, which is purchased by the government, and actually stays unused.

Keywords:

efficiency, equilibrium, long-run average costs, long-run marginal costs, price intervention programs, subsidy of agricultural products

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