Subsidy Incidence

Q_{sub} carries a MC > MB, thereby creating a DWL [(8) + (9)]. This is in addition to the DWL created by the taxes that fund the subsidy.

Fiscal Cost = (P_S - P_D)\times Q_{sub}
Or, (2) + (3) + (6) + (7) + (8) + (9)

Distribution of Benefits depends on elasticities. Generally, rel. more of the benefit falls on the side of the market w/the lower price sensitivity (i.e., the rel. more Inelastic side)

Consumer Surplus = (1) + (2) [before subsidy] \Rightarrow (1) + (2) + (3) + (7) [after subsidy]
Producer Surplus (profit) = (3) + (4) [before subsidy] \Rightarrow (3) + (4) + (2) + (6) [after subsidy]