Assume the product market for Good X with a relatively elastic demand. (15 pts)

1. Graph the Market for Good X and label: (2pts)
   1. Market price (1pt)
   2. Market output level (1pt)
2. Now assume that the companies that produce Good X received a government subsidy for research and development of Good X. Identify on the original graph and explain the effect of the subsidy on:
   1. New Market price (2pts)
   2. New Market output level. (2pts)
   3. total revenue (2pts)
3. Now assume given the new equilibrium price and output that the government imposes an effective price floor on Good X. Using a new graph:
   1. Label the effective price floor on the graph. (2pt)
   2. Identify the condition that exists in the market (1pt)
4. Now assume the price control stays in effect. Identify one way in which the market for Good X could naturally reach the price level of the price floor. Show this on the new graph you created in part 3. (2 pts)

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