Cross-Subsidies: Introduction

Definition:

A cross-subsidy is a policy that provides a **subsidy** in one market paid for by **charging extra** (effectively a tax) in another market.

In effect:
S in first market
T in second market

Usual goal:
Break even over all

Example: Post Office

Market	Cost per Letter
Urban (U)	WTA_U
Rural (R)	WTA_R

Rural is more expensive to serve:
$WTA_R > WTA_U$

Single weighted-average price P charged for both:
U: $P > WTA_U$
R: $P < WTA_R$

In effect, tax in U and subsidy in R:
$T_U = P - WTA_U$
$S_R = WTA_R - P$