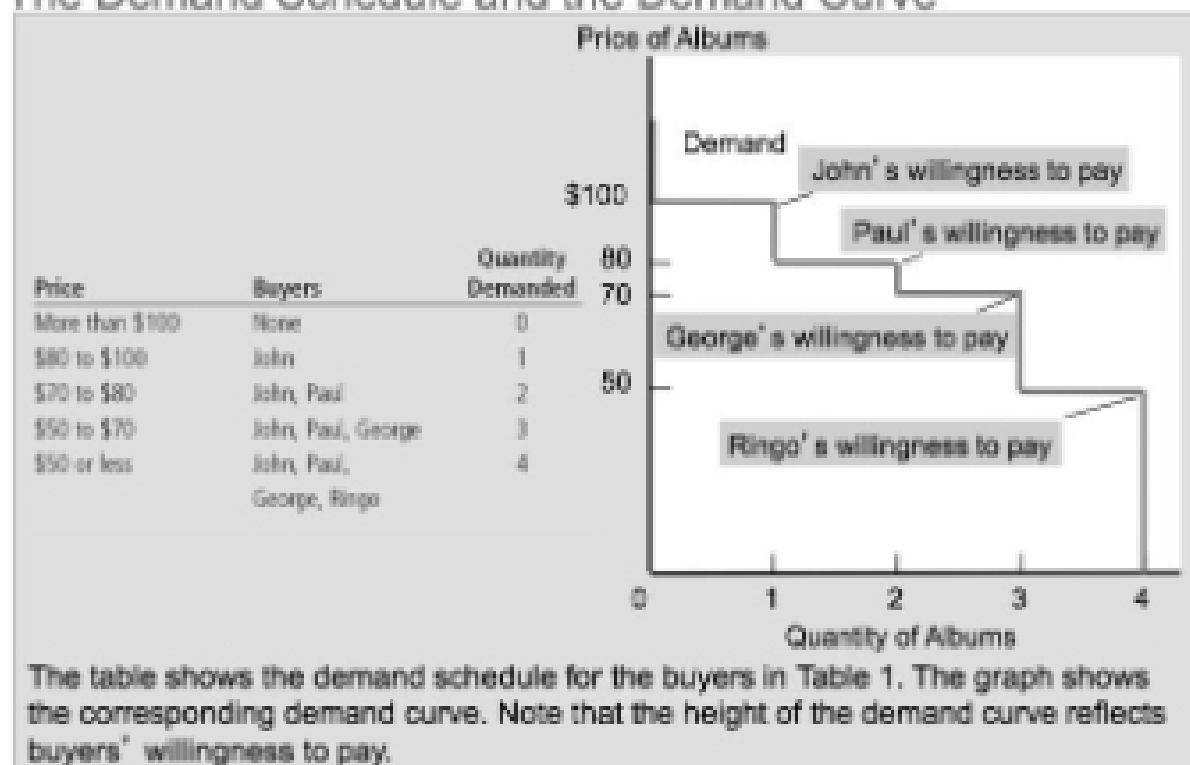


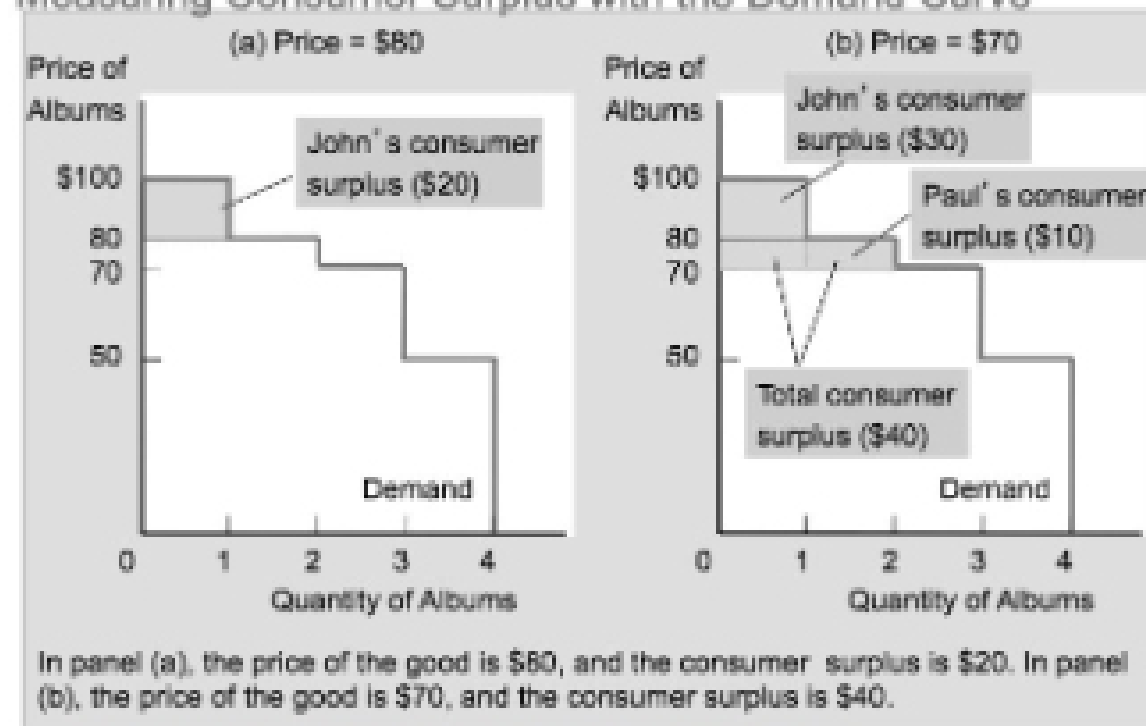
Microeconomics Midterm II NotesChapter 7- Consumers, Producers, and the Efficiency of Markets**Consumer Surplus**

- Welfare economics
  - How the allocation of resources affects economic well-being
- Willingness to pay
  - Maximum amount that a buyer will pay for a good
- Consumer surplus
  - Amount a buyer is willing to pay for a good
    - Minus amount the buyer actually pays for it
  - Measures the benefit buyers receive from participating in a market
  - Closely related to the demand curve
  - Highest bidder will win
- Demand schedule
  - Derived from the willingness to pay of the possible buyers

**The Demand Schedule and the Demand Curve**

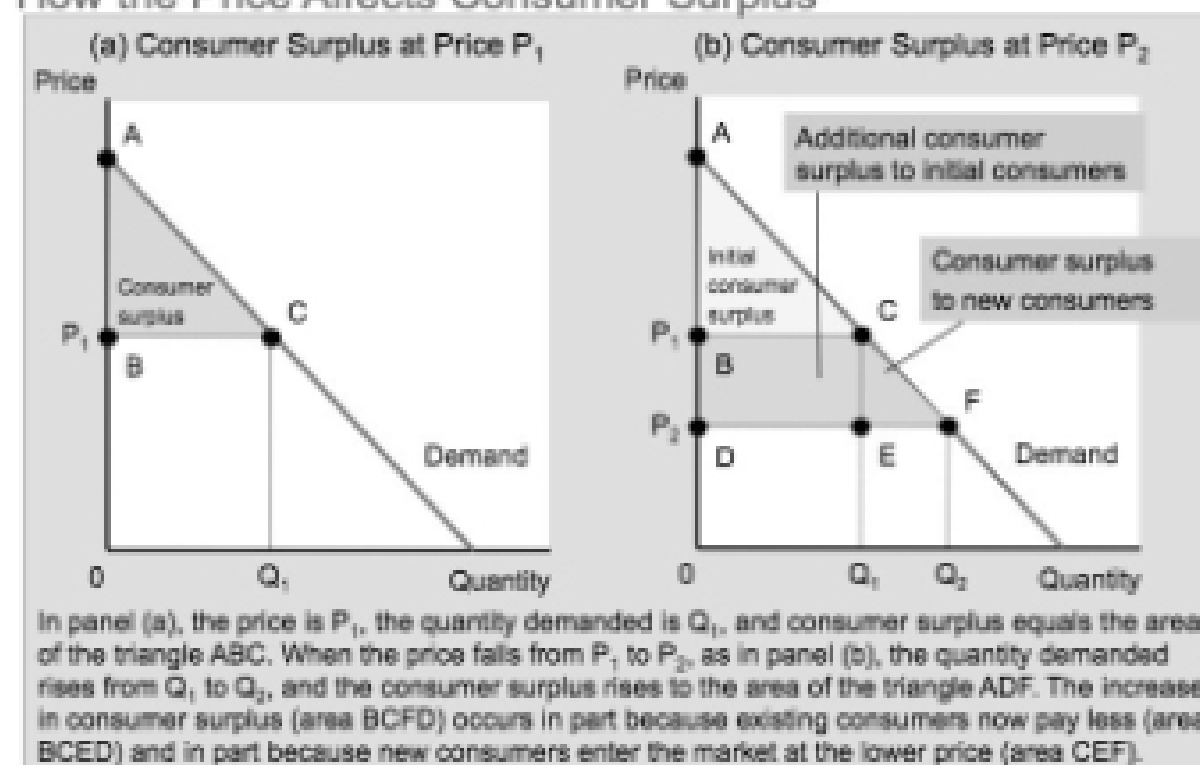
- At any quantity
  - Price given by the demand curve
    - Willingness to pay of the marginal buyer
- Demand curve
  - Reflects buyers' willingness to pay
  - Measure consumer surplus
- Consumer surplus in a market
  - Area below the demand curve and above the price

## Measuring Consumer Surplus with the Demand Curve



- A lower price raises consumer surplus
  - Buyers - always want to pay less
  - Initial price,  $P_1$ 
    - Quantity demanded  $Q_1$
    - Consumer surplus: area ABC

## How the Price Affects Consumer Surplus



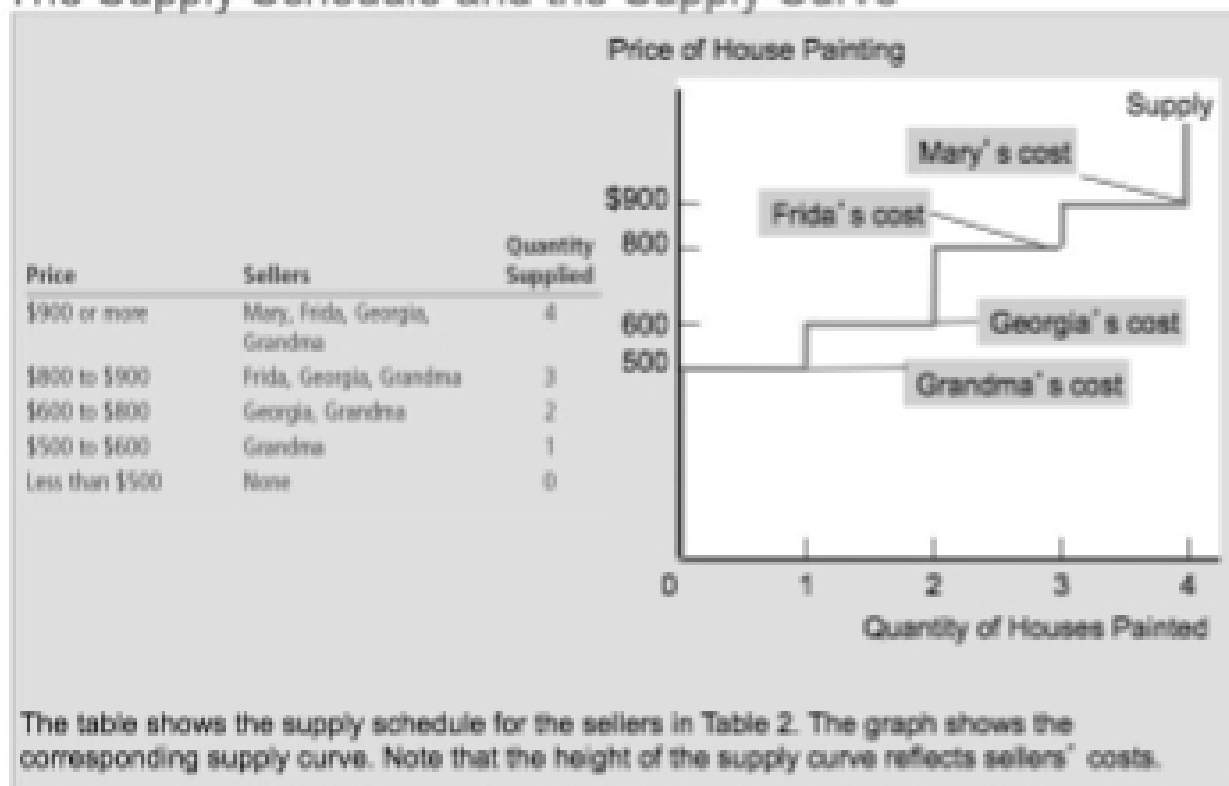
- A lower price raises consumer surplus
  - New, lower price,  $P_2$ 
    - Greater quantity demanded,  $Q_2$ 
      - New buyers
    - Increase in consumer surplus from area ABC
      - From initial buyers, add area BCDE
      - From new buyers, add area CEF
- Consumer surplus
  - Benefit that buyers receive from a good

- As the buyers themselves perceive it
- Good measure of economic well-being
- Exception: Illegal drugs
  - Drug addicts
    - Willing to pay a high price for heroin
  - Society's standpoint
    - Drug addicts don't get a large benefit from being able to buy heroin at a low price

### Producer Surplus

- Cost
  - Value of everything a seller must give up to produce a good
  - Measure of willingness to sell
- Producer surplus
  - Amount a seller is paid for a good minus the seller's cost of providing it
  - Closely related to the supply curve
- Supply schedule
  - Derived from the costs of the suppliers
- At any quantity
  - Price given by the supply curve shows the cost of the marginal seller
  -

### The Supply Schedule and the Supply Curve



- Supply curve
  - Reflects sellers' costs
  - Measure producer surplus
- Producer surplus in a market
  - Area below the price and above the supply curve