

EFFICIENCY: Demand Supply and SURPLUS

WTP

- *Willingness to pay* is the maximum amount that a buyer will pay for a good.
- It measures how much the buyer values the good or service.

CONSUMER SURPLUS

- *Consumer surplus* is the buyer's willingness to pay for a good minus the amount the buyer actually pays for it.

CONSUMER SURPLUS

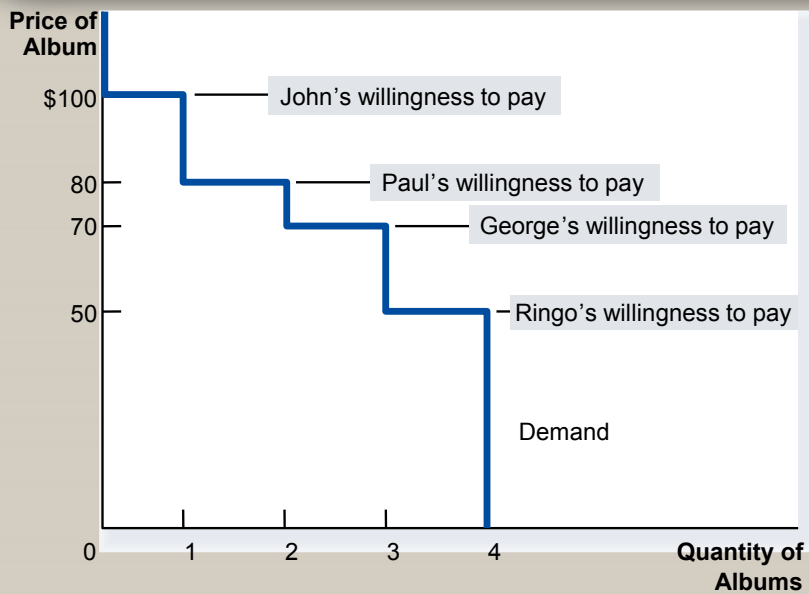
- The market demand curve depicts the various quantities that buyers would be willing and able to purchase at different prices.

The Demand Schedule and the Demand Curve

Price	Buyers	Quantity Demanded
More than \$100	None	0
\$80 to \$100	John	1
\$70 to \$80	John, Paul	2
\$50 to \$70	John, Paul, George	3
\$50 or less	John, Paul, George, Ringo	4

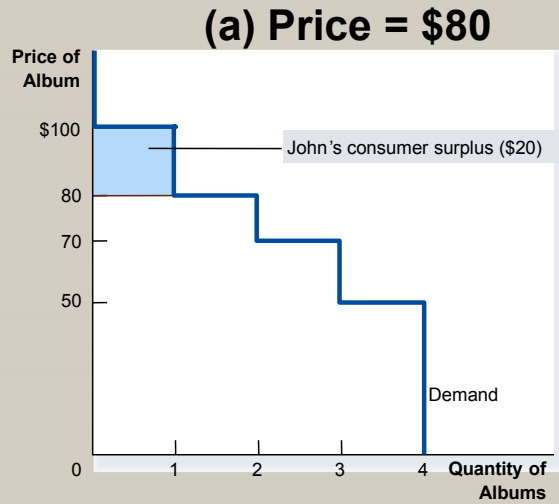
Copyright © 2004 South-Western

Figure 1 The Demand Schedule and the Demand Curve



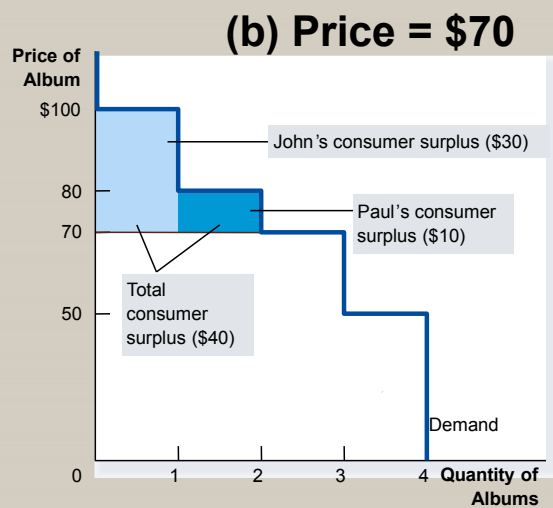
Copyright©2003 Southwestern/Thomson Learning

Figure 2 Measuring Consumer Surplus with the Demand Curve



Copyright©2003 Southwestern/Thomson Learning

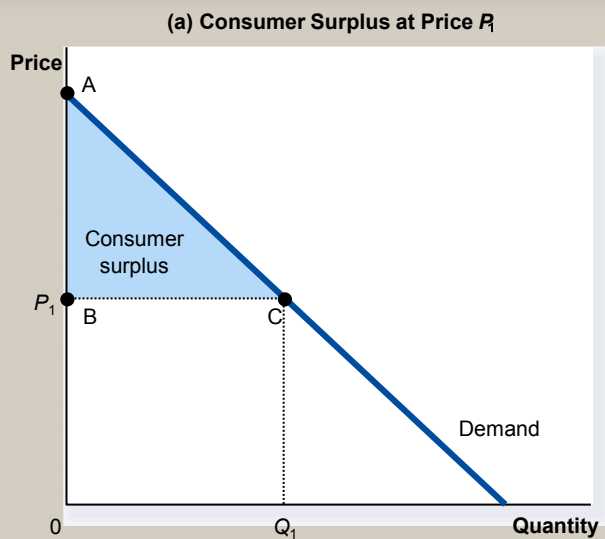
Figure 2 Measuring Consumer Surplus with the Demand Curve



Copyright©2003 Southwestern/Thomson Learning

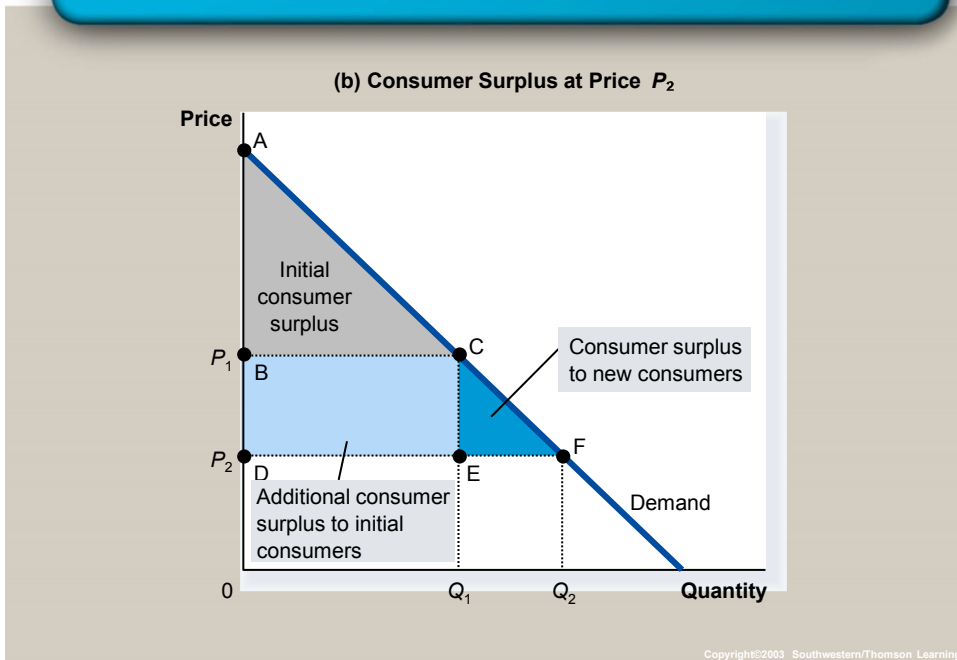
- The area below the demand curve and above the price measures the consumer surplus in the market.

Figure 3 How the Price Affects Consumer Surplus



Copyright©2003 Southwestern/Thomson Learning

Figure 3 How the Price Affects Consumer Surplus



- *Consumer surplus*, the amount that buyers are willing to pay for a good minus the amount they actually pay for it, measures the benefit that buyers receive from a good *as the buyers themselves perceive it*.

PRODUCER SURPLUS

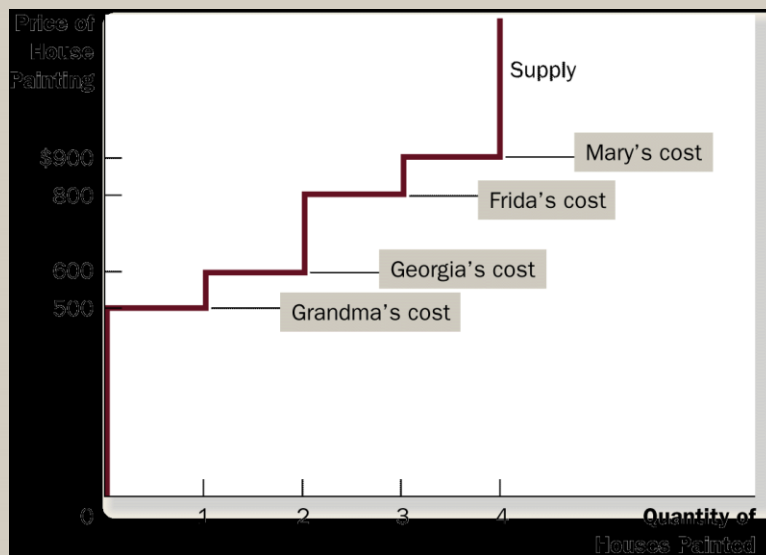
- *Producer surplus* is the amount a seller is paid for a good minus the seller's *cost*.
- It measures the benefit to sellers participating in a market.

- Just as consumer surplus is related to the demand curve, producer surplus is closely related to the supply curve.

The Supply Schedule and the Supply Curve

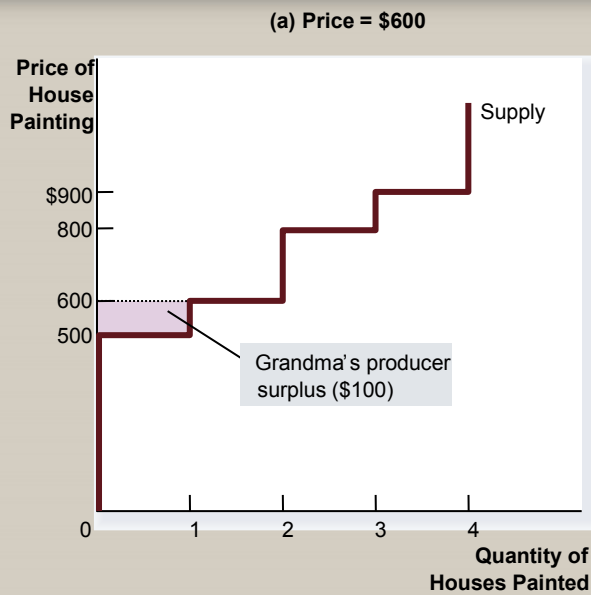
Price	Sellers	Quantity Supplied
\$900 or more	Mary, Frida, Georgia, Grandma	4
\$800 to \$900	Frida, Georgia, Grandma	3
\$600 to \$800	Georgia, Grandma	2
\$500 to \$600	Grandma	1
Less than \$500	None	0

Figure 4 The Supply Schedule and the Supply Curve



- The area below the price and above the supply curve measures the producer surplus in a market.

Figure 5 Measuring Producer Surplus with the Supply Curve



Copyright©2003 Southwestern/Thomson Learning

Figure 5 Measuring Producer Surplus with the Supply Curve

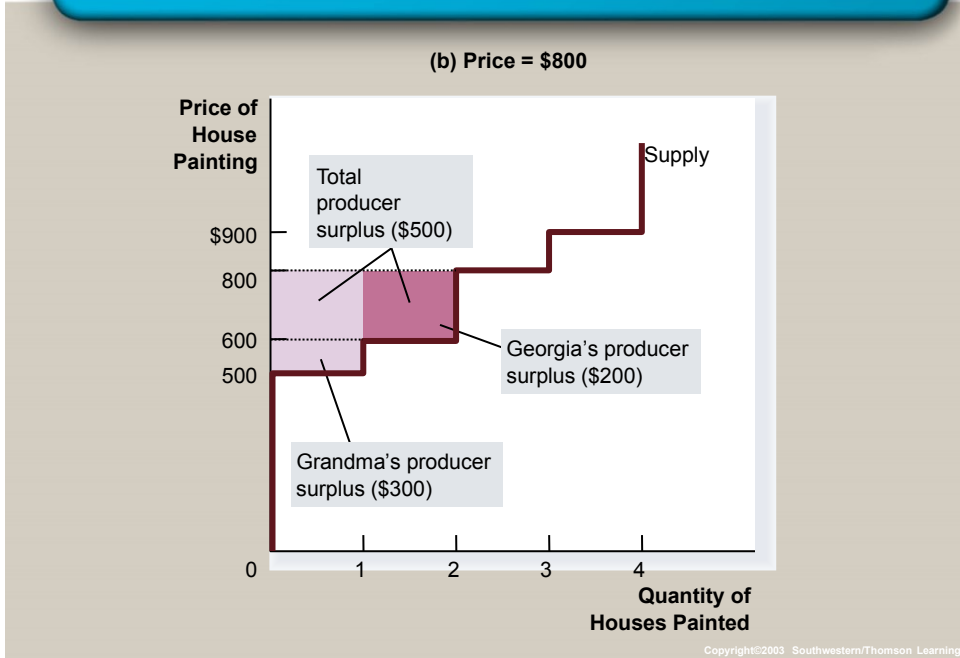


Figure 6 How the Price Affects Producer Surplus

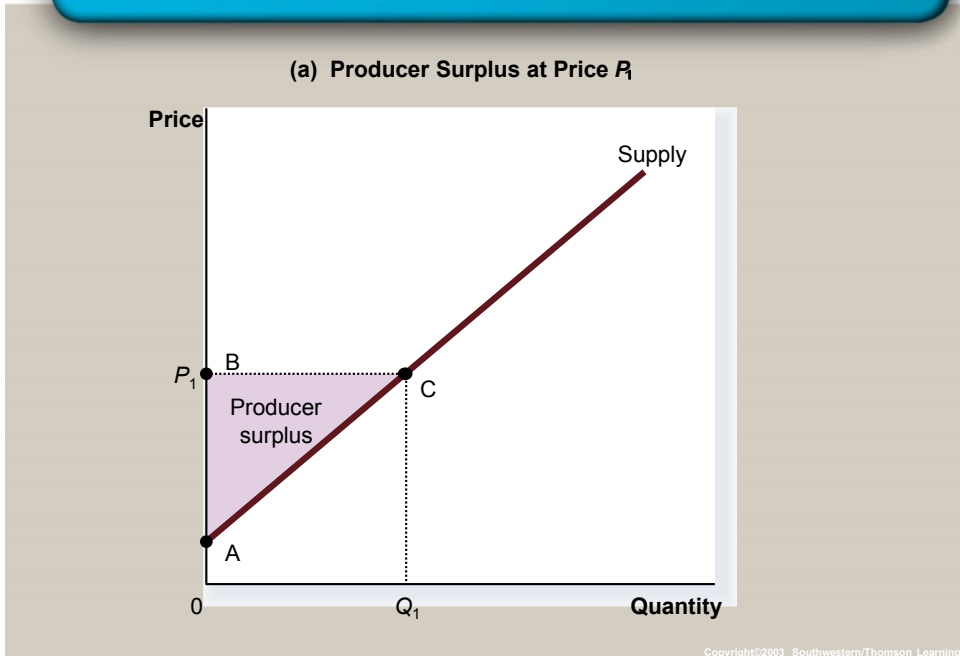
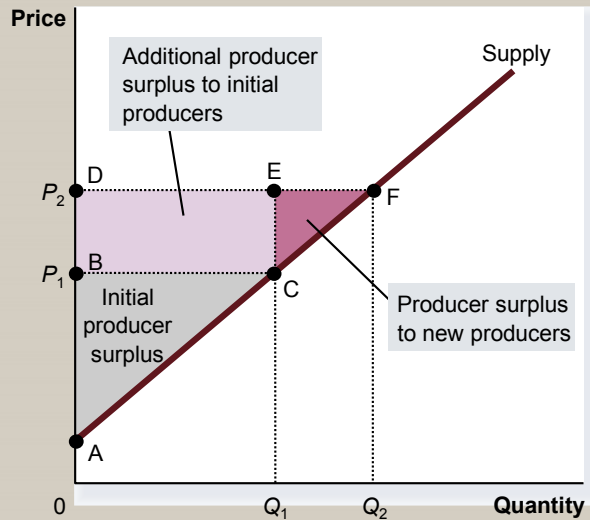


Figure 6 How the Price Affects Producer Surplus

(b) Producer Surplus at Price P_2 

Copyright©2003 Southwestern/Thomson Learning

MARKET EFFICIENCY

- Consumer surplus and producer surplus may be used to address the following question:
 - Is the allocation of resources determined by free markets in any way desirable?

MARKET EFFICIENCY

Consumer Surplus

= Value to buyers – Amount paid by buyers

Producer Surplus

= Amount received by sellers – Cost to sellers

Total surplus

= Consumer surplus + Producer surplus

or

= **Value to buyers – Cost to sellers**

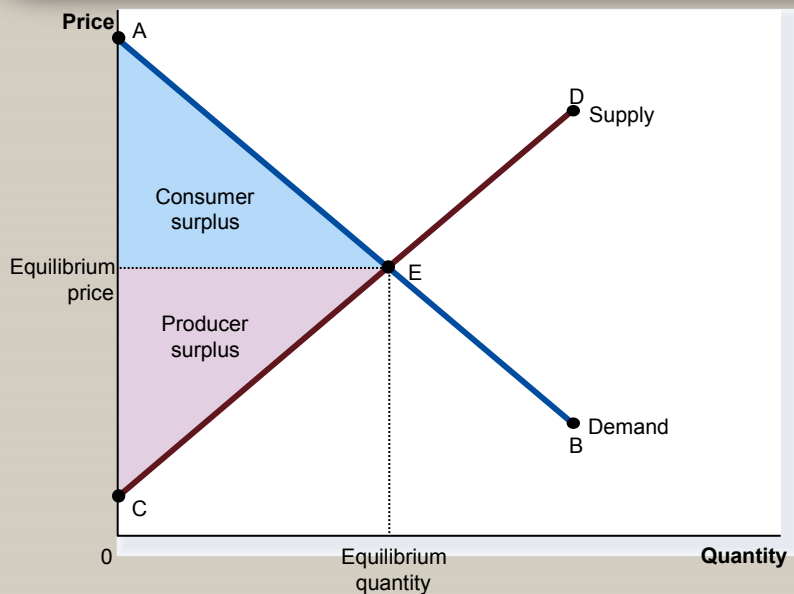
MARKET EFFICIENCY

- *Efficiency* is the property of a resource allocation of **maximizing the total surplus** received by all members of society.

MARKET EFFICIENCY

- EFFICIENZA e' DIVERSA da EQUITA'!!!
- *equity* – the fairness of the distribution of well-being among the various buyers and sellers.

Figure 7 Consumer and Producer Surplus in the Market Equilibrium



Copyright©2003 Southwestern/Thomson Learning

EFFICIENZA e perdita di benessere

