

# Consumer and Producer Surplus!!

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# What are Consumer and Producer Surplus?

- **Consumer Surplus:** is the monetary gain obtained by consumers when they are able to purchase goods and services at a discounted rate compared to the price they are willing to pay, and therefore the money that they have saved becomes their surplus.
- **Producer Surplus:** consists of the amount that producers receive by selling their goods at a market price which is higher than the least they would sell it for.





# Types of Consumer Surplus!

- **Individual:** the net gain to an individual buyer from the purchase of a good. It is equal to the difference between the buyers willingness to pay and the price paid.
- **Total:** the sum of the individual consumer surpluses of all the buyers of a good in a market.
- **Consumer Surplus is often to referred to both the individual and total consumer surpluses.**



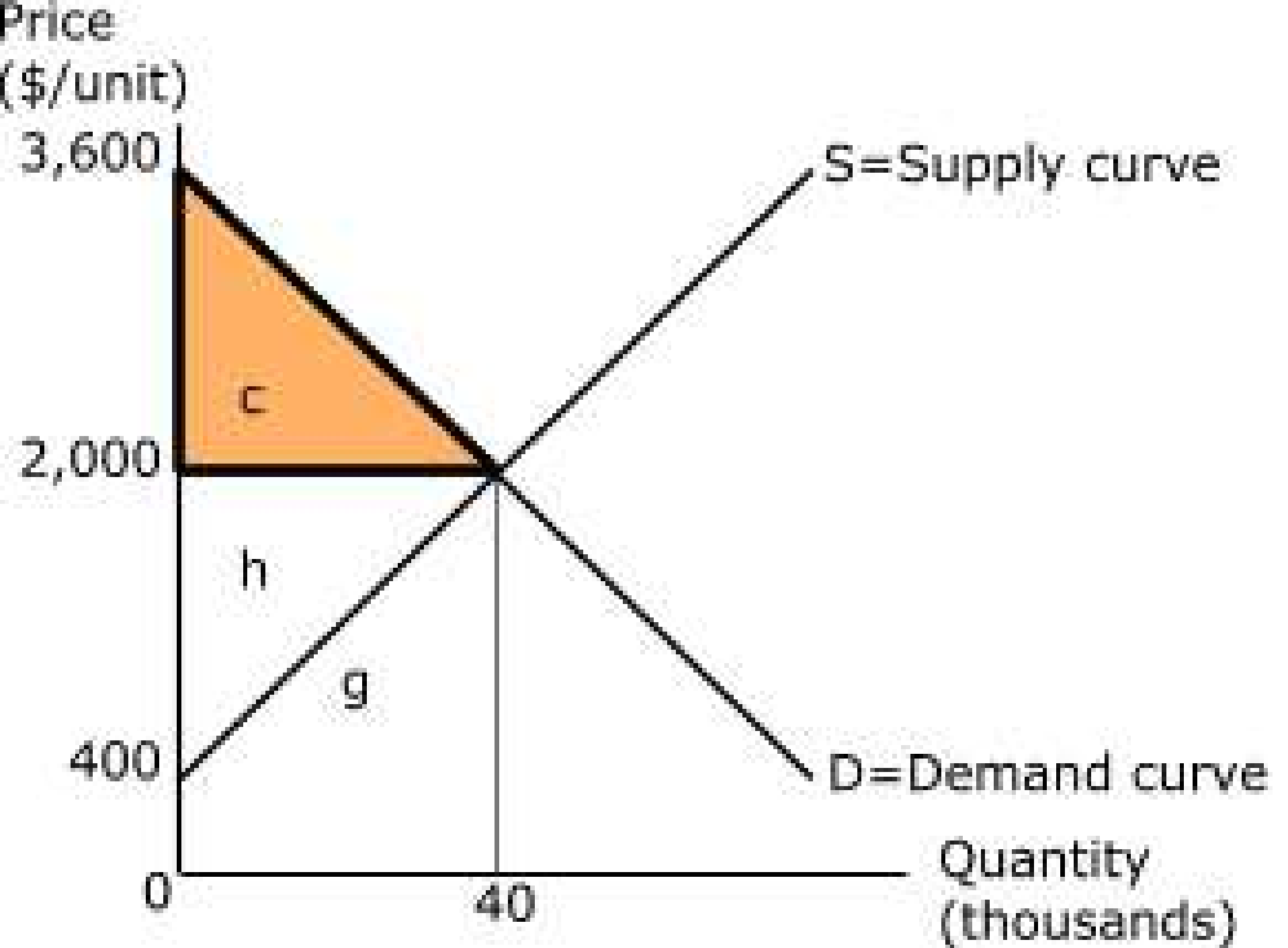
# Types of Producer Surplus!

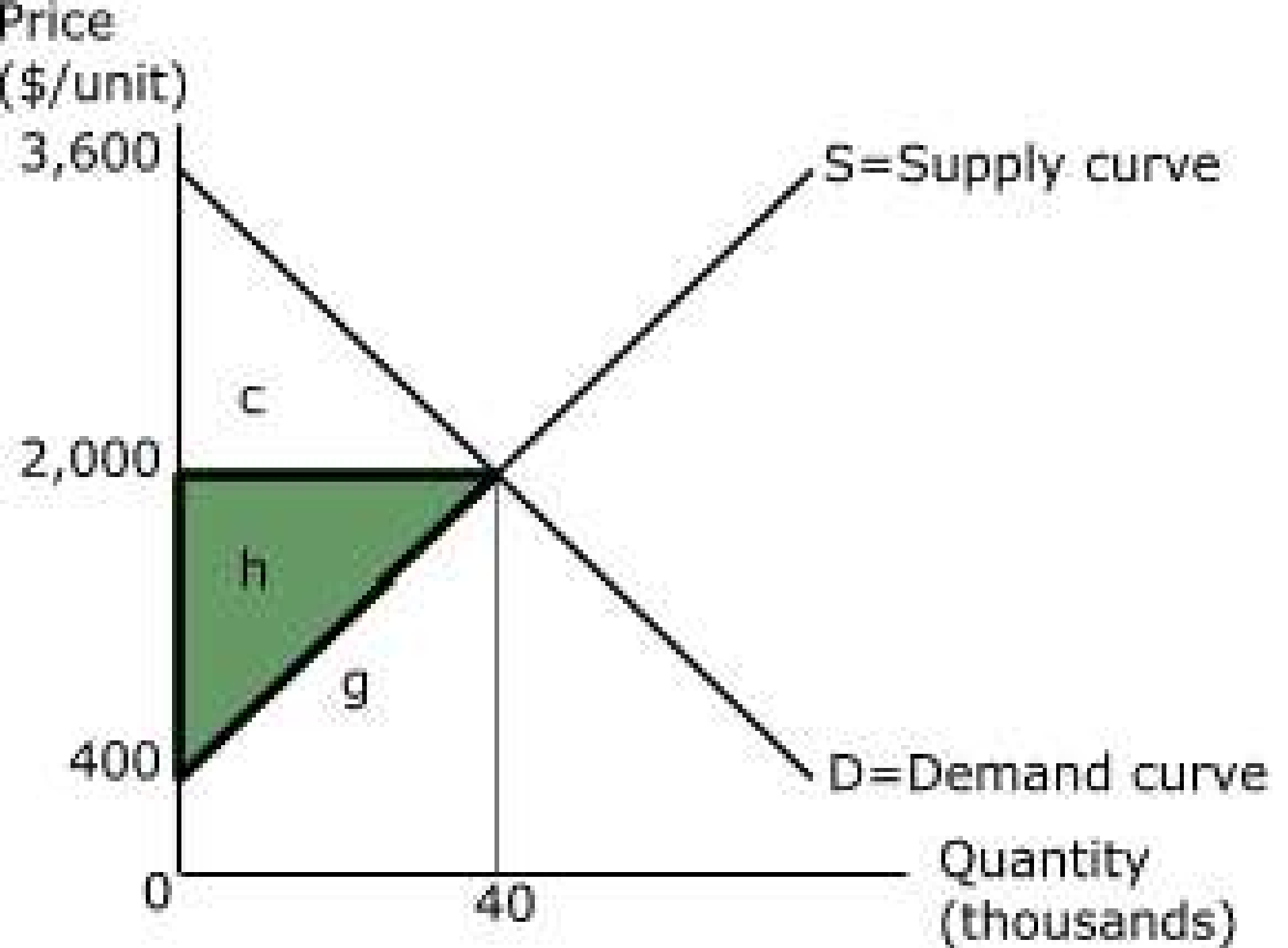
- Individual: the net gain to an individual seller (sole proprietor) from selling a good. It is equal to the difference between the price received and the seller's cost.
- Total: the sum of the individual producer surpluses of all the sellers of a good in a market.

# KEY FORMULAS!!

- First of all note that consumer surplus is located at the point where the price of the good and the quantity of the good intersect on the supply and demand curve.
- **$(\text{BASE} \times \text{HEIGHT})/2$**
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# Similarities!

- Producer surplus can somewhat tie into the unit on monopoly. Monopolies are always finding and looking for ways to increase their producer surplus therefore they can save more money and further **ALLOCATE** there resources. By doing so it becomes much easier to control the market of the good being produced.
- Consumer surplus on the other hand is somewhat similar to the unit on marginal cost. This being that consumers willingness for something and satisfaction are factors for both units. The consumer wants the **BEST** situation possible and to feel the joy of saving.

# Questions!!

- **FREE RESPONSE:** [http://apcentral.collegeboard.com/apc/public/repository/ap09\\_frq\\_microeconomics.pdf](http://apcentral.collegeboard.com/apc/public/repository/ap09_frq_microeconomics.pdf)
- **MULTIPLE CHOICE:**
- **Other things equal, a rise in price will result in which of the following?**
- A. Producer surplus will rise; consumer surplus will rise.
- B. Producer surplus will fall; consumer surplus will fall.
- C. Producer surplus will rise; consumer surplus will fall.
- D. Producer surplus will fall; consumer surplus will rise.
- E. Producer surplus will not change; consumer surplus will rise.
- **Consumer Surplus is found as the area is?**
- A. above the supply curve and below the price.
- B. below the demand curve and above the price.
- C. above the demand curve and below the price
- D. below the supply curve and above the price.
- E. below the supply curve and above the demand curve.
- **Allocating kidneys to those with the highest net benefit (where net benefit is measured as the expected increase in lifespan from a transplant) is an attempt to maximize?**
- A. consumer surplus
- B. producer surplus
- C. profit
- D. equity
- E. respect for elders

# LINKS!!

- <http://www.nbc.com/saturday-night-live/video/black-friday/1261520/>
- <http://search.espn.go.com/ufc/>