# Consumer Surplus + Producer Surplus

**Big Question:** why is it better for markets to get bigger rather than smaller?

**Syllabus Ref: Items 15 +16+17 Weight 3 for 15 + 16. Weight 4 for 17.**

**Webnote 105**

# Alternative uses of Economics Diagrams : Consumer Surplus + Producer Surplus

# Syllabus References :

# 1.1: The free market and the price mechanism can bring about equilibrium at

e or e2 where the community surplus is maximized. They represent the price

quantity that maximizes community ( CS+ PS) surplus. This is why the free

market is desirable and provides an effective allocation of resources (with the exceptions offered by market failure).

* Not only the consumer and the producer benefit. Society as a whole benefits from larger output and increased level of goods and services (wealth). This can also be described as welfare gain.

**Task 1:**

**Can you identify “community loss” on the diagram assuming that market equilibrium should occur at e but a Monopolist decides instead to produce at q2 ?**

**Answer= MeF**

**P D (= marginal benefit, utility)**

**S1**

**S (= marginal cost)**

**CS 2 M**

**P2**

**CS 1**

**Comm . loss e S2**

**P1**

**PS F e2**

**A**

**B**

**0 q2 q1 Q / Output / wealth**

See also webnote 135 and the concept of ‘deadweight loss’

(syllabus 1.3)

**Task 2:**

Identify on the diagram what is the area of society surplus if S shifts to S2?

Answer: **Pe2B. Society is better off at q1 p1**

**Note on diagram:**

* **At p1q1 CS 1 + 2 = benefit to consumer, P1 or P2 < ability to pay higher prices exists**
* **At p1q1 PS = benefit to producer, P 1 > willingness to supply at lower prices exists**
* **This is why the market is desirable and can allocate resources effectively. Both the consumer and the producer can have a surplus. The issue is how the surplus is shared.**
* **Society also benefits. This is called society or community surplus**