

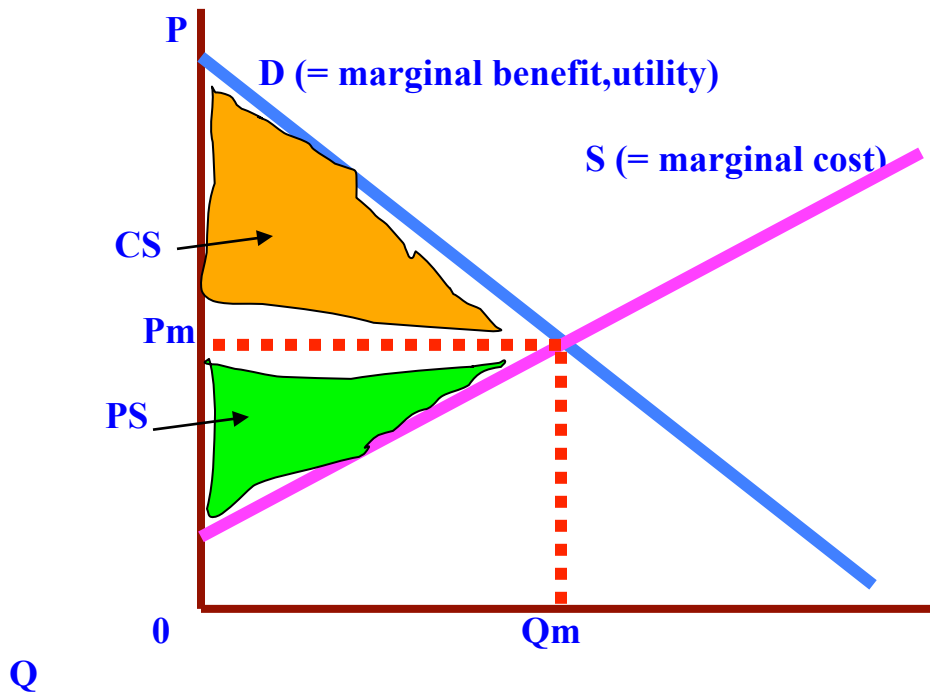
## Introduction

Note: same webnote is repeated in section 1.1 under webnote number 104

## Webnote 0011

Syllabus: Items 15-17

### Syllabus Reference 1.1: Consumer Surplus + Producer Surplus



Market is best allocative system because at equilibrium price + quantity the consumer and the producer enjoy a "surplus" i.e. prices better than expected.

Read:

Blink pp 38-39 for a good summary of surplus. See also webnote 105

See also webnote 135 and the concept of 'deadweight loss'

(syllabus 1.3)

#### Notes:

- $P_m$  = equilibrium price or clearing price agreed between the consumer and the producer
- CS = benefit to consumer,  $P_m <$  ability to pay
- PS = benefit to producer,  $P_m >$  willingness to supply
- CS + PS = CS, (community surplus) This is important as at  $P_m$  community surplus is maximized.
- This is why the market is desirable and can allocate resources effectively as both consumer and producer benefit