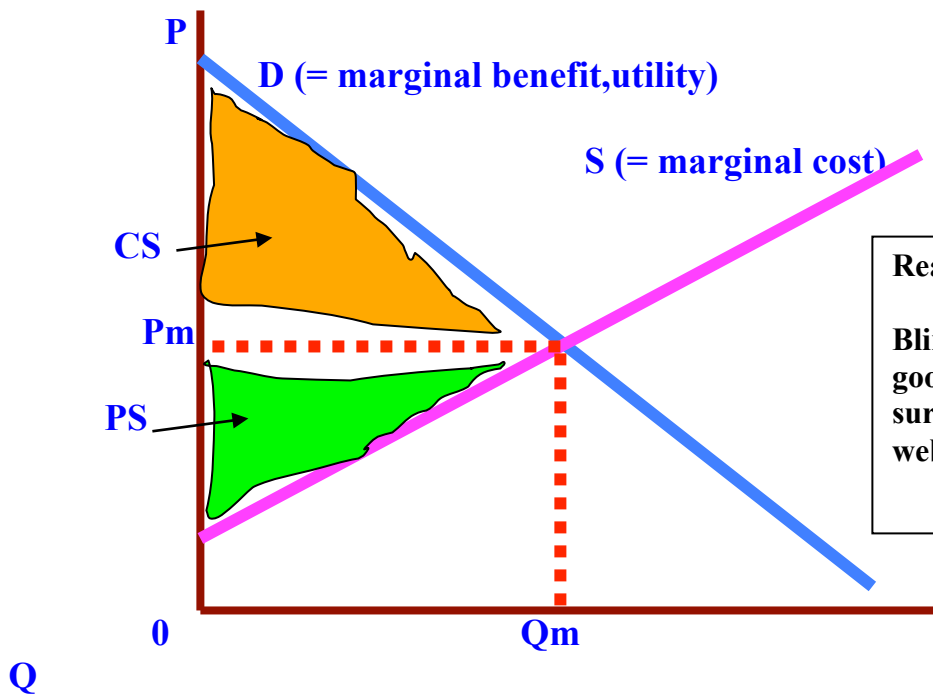


Big Question: How can we graphically show that the market is the best resource allocation (for) system?

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



**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