

# Consumer Surplus + Producer Surplus

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

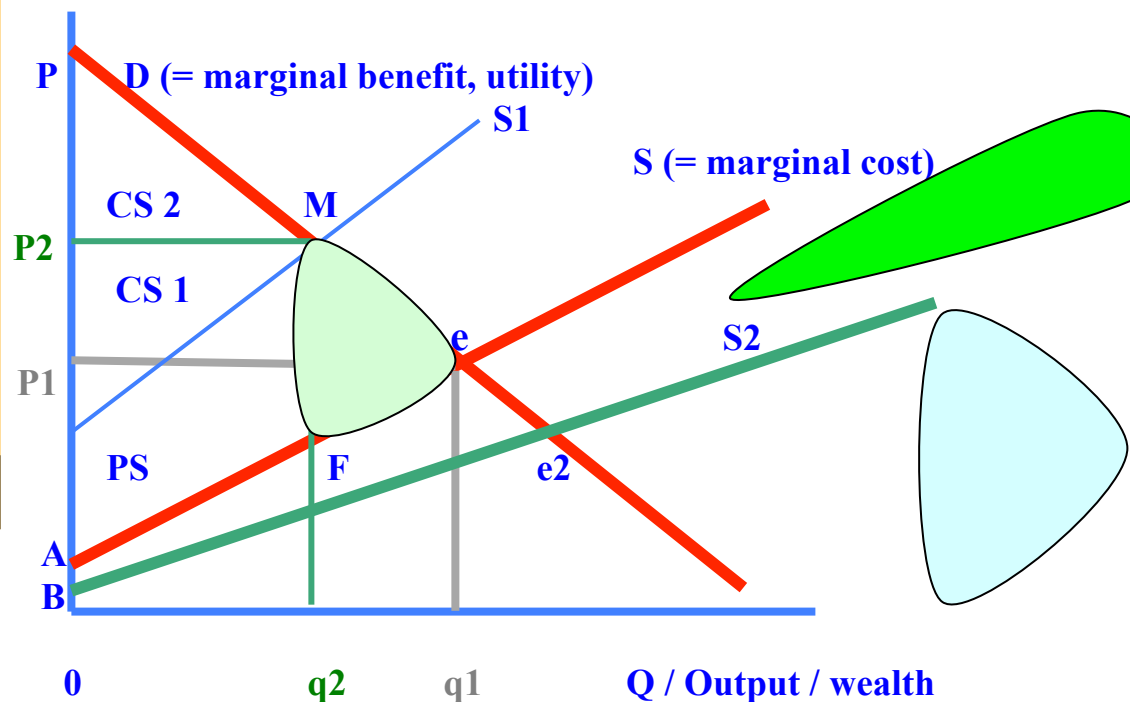
**Big Question:**  
why is it better for markets to get bigger rather than smaller?

### Syllabus References :

- 1.1: The free market and the price mechanism can bring about equilibrium at  $e$  or  $e_2$  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  $q_2$ ?



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

(syllabus 1.3)

### Note on diagram:

- At  $p_1q_1$  CS 1 + 2 = benefit to consumer,  $P_1$  or  $P_2 <$  ability to pay higher prices exists
- At  $p_1q_1$  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

### Task 2:

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