Deadweight Loss

Markets

Use this diagram in any evaluation of a market! Therefore it is useful for:

- 1.1
- 1.3
- 1.4
- 1.5

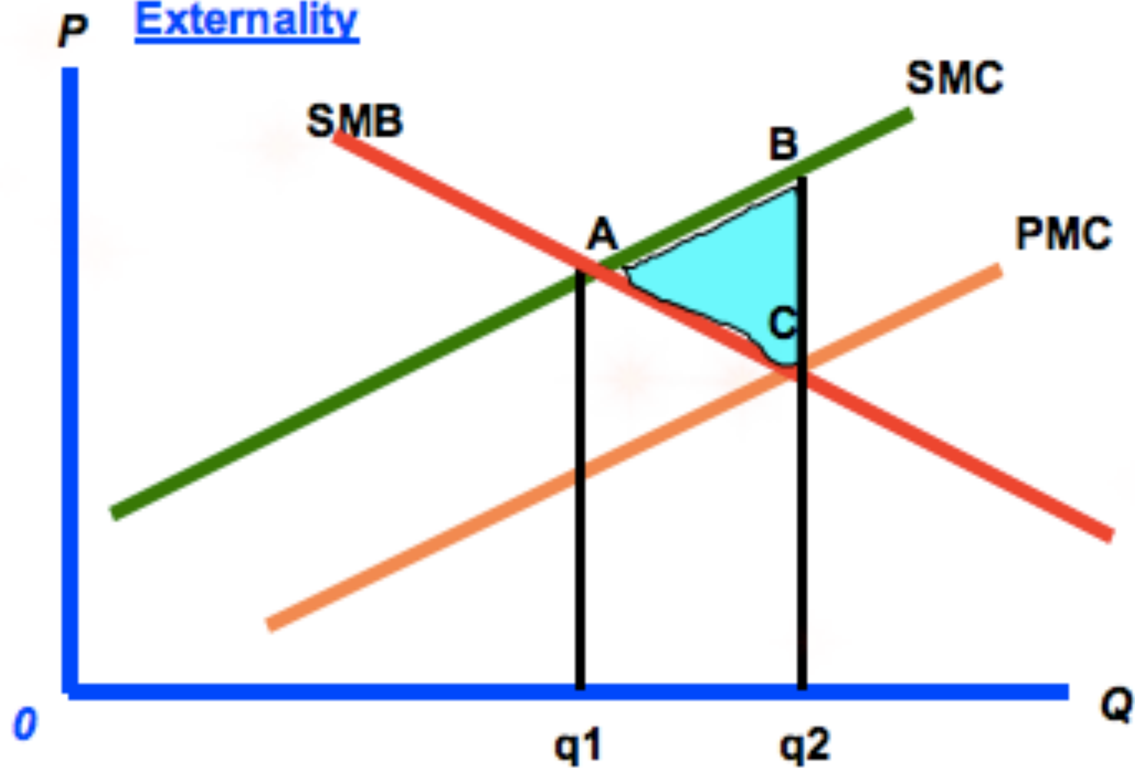
Deadweight Loss: Definition

In economics, a **deadweight loss** (also known as **excess burden** or **allocative inefficiency**) is a loss of economic efficiency that can occur when equilibrium for a good or service is not achieved or is not achievable. Causes of deadweight loss can include monopoly pricing (in the case of artificial scarcity), externalities, taxes or subsidies, and binding price ceilings or floors (including minimum wages). The term deadweight loss may also be referred to as the "excess burden" of monopoly or taxation.

Source: wickipedia

Welfare Loss

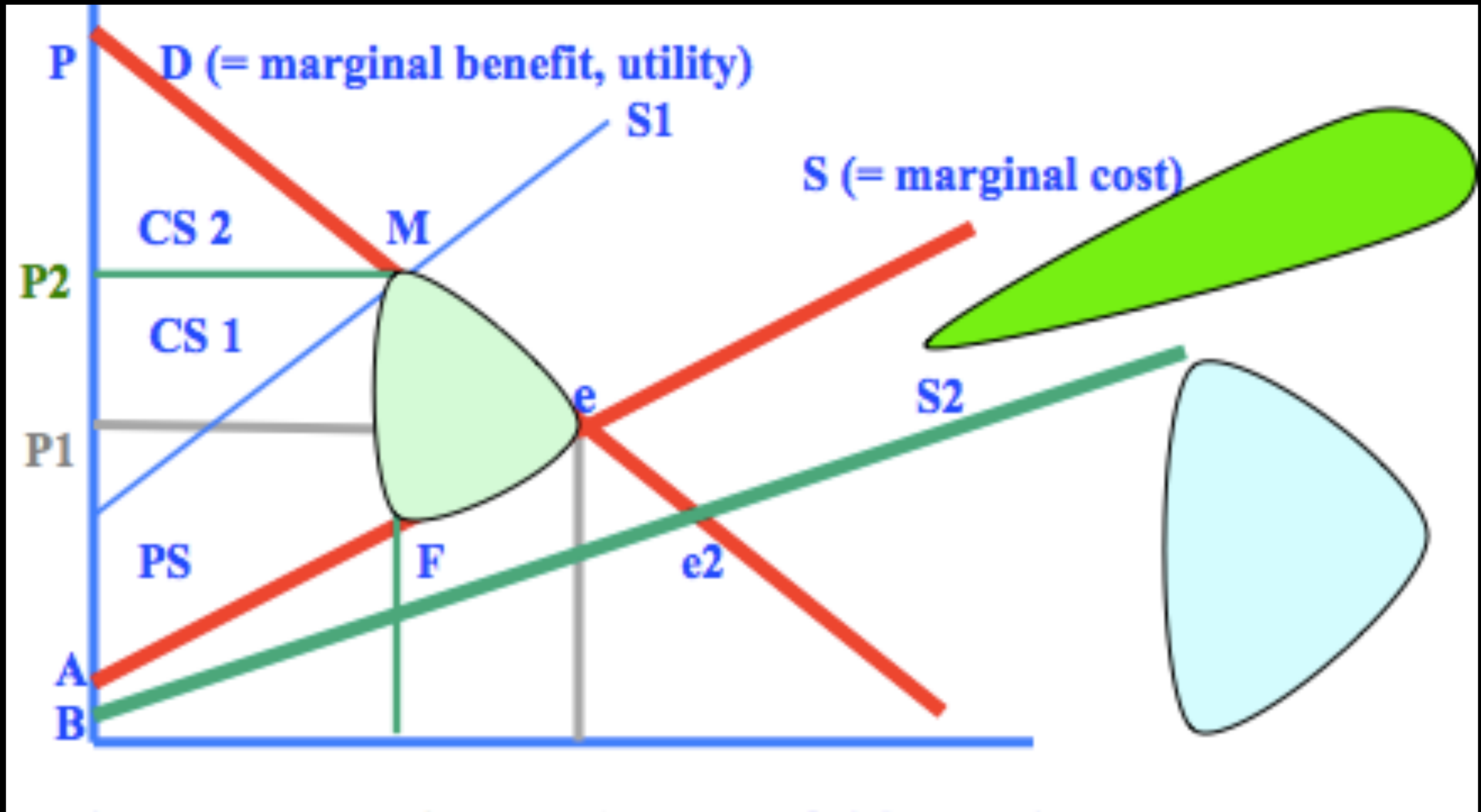
(equilibrium is maintained e.g. at A or C)



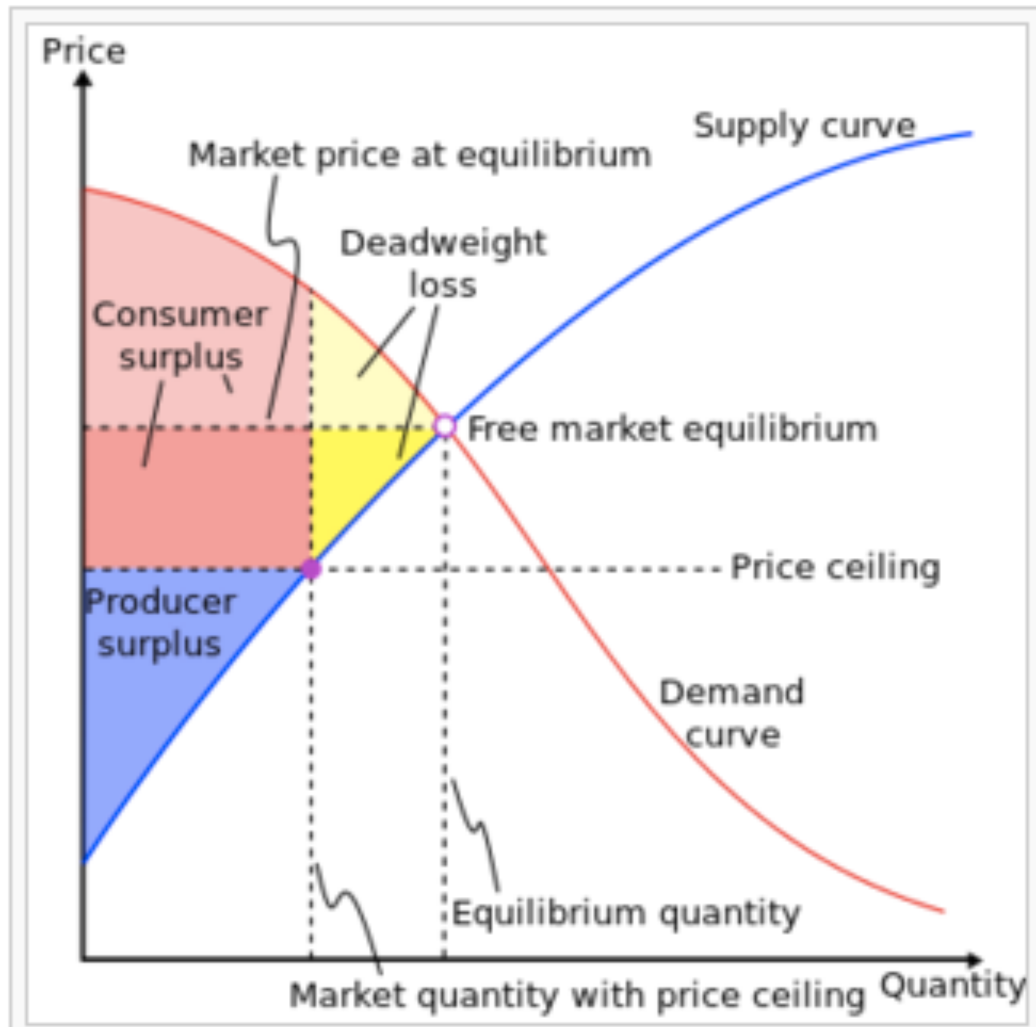
Welfare Loss

(equilibrium is maintained e.g. at M or e or e2)

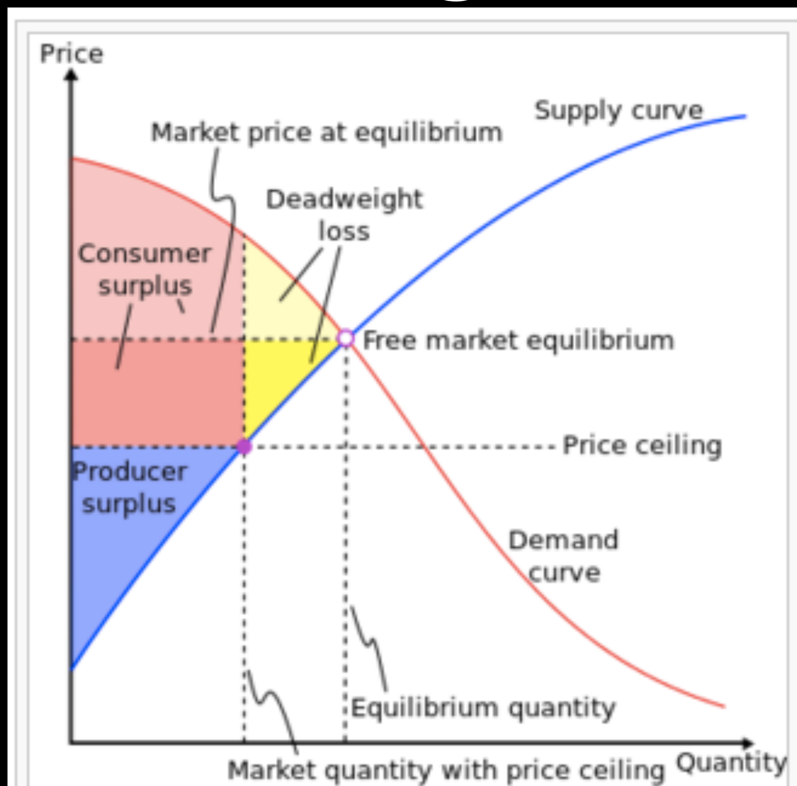
See webnote 105 for details



Deadweight Loss



Deadweight Loss



Deadweight loss created by a binding price ceiling. Producer surplus is necessarily decreased, while consumer surplus may or may not increase; however the decrease in producer surplus must be greater than the increase (if any) in consumer surplus.