**ED 1: consumer+producer**

**surplus**

**Best Uses:**

* (dis)advantages of market (stakeholders)
* welfare gain (maket increases in size)
* welfare loss (market reduces in size)
* price power of firm (producer sovereignty)
* consumer power ( sovereignty)
* Perfect Competition (lower prices+higher output)
* Imperfect Competition (higher prices + lower output)

# Consumer Surplus + Producer Surplus

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

# Syllabus References :

# 1.2: The free market and the price mechanism can 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).

* 2.2: It can be used to show how consumers win under PC and lose under Monopoly. Under Monopoly P = P 2 and under PC P = P1 Under Monopoly conditions the consumer loses the consumer surplus of CS 1. Under PC the area of consumer surplus is CS 1 + CS 2. The consumer and society is better off. Why society? CS +PS = CS, (community surplus) This is important as at P1 community surplus is maximized (CS 2 + CS 1). IF price is at P2 then society loses WL ( Welfare loss) in so much as this quantity is not produced and price is higher than P 1.

Note on diagram:

* CS 1 + 2 = benefit to consumer, P1 or P2 **<** ability to pay higher prices exists
* 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.

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

**S (= marginal cost)**

**CS 2**

**P2**

**CS 1**

**WL e S2**

**P1**

**PS e2**

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