Introduction to Microeconomics

Total Surplus

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Total Surplus

- Total Surplus is the sum of consumer surplus and producer surplus
- Total surplus measures the total economic welfare

Total Surplus = Consumer Surplus + Producer Surplus
= Willingness to pay - Market Price + Market Price - Economic Cost
= Willingness to Pay - Economic Cost

Total surplus is maximized at the market equilibrium price.

Remember the example of soft drink? You would not pay more than 20tk, you bought a bottle at 15tk. Your seller would not sell a bottle less than 12tk, but sold the product at 15tk. What would be the Consumer surplus? Producer Surplus? Total Surplus?

Market Equilibrium

At market equilibrium price, efficiency in allocation of resources is ensured

Graphical Representation