Introduction to Microeconomics

Consumer Surplus

Ishmam Al Quddus

Consumer Surplus

- Consumer surplus is the amount a buyer is willing to pay **minus** the amount it pays $\longrightarrow$ measures the benefits of consumers/buyers
- Consumer surplus is measured using the demand curve

Willingness to Pay

- In the market economy, there are buyers and sellers
- Buyers represent the demand side
- Demand for a product or service means that you want that good and you are willing to pay for it
- How much you are willing to pay for it can be observed from the demand function and/or demand curve

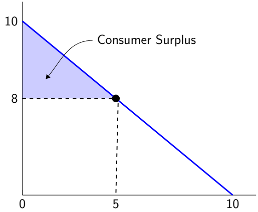
Consumer Surplus (CS) = Willingness to Pay (WTP) - Amount Paid

You would not spend more than 20tk for a soft beverage. You went to the store and saw the price was 15tk. How much would be the consumer surplus?

Graphical Representation

1. Using demand curve to measure the Consumer Surplus (CS)
2. The area under the demand curve and above the paid price depicts your CS

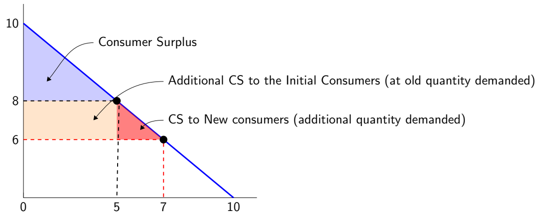
Graphs



Calculate the Consumer Surplus.

Formula: $\frac{1}{2}$ X Δ Price X Quantity Demanded

Graphs



Calculate the (i) New CS, (ii) Additional CS to Old Consumers and (iii) CS to New Consumers .

Formula: (i) $\frac{1}{2}$ X Δ Price X Quantity Demanded

(ii) Change in Market Price X Quantity Demanded of Old consumers

(iii) $\frac{1}{2}$ X Δ Market Price X Change in Quantity Demanded